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Exploring Organisational Perspectives on, and Approaches to, Venture Philanthropy amongst Four Funders [2011–2014]: Convergence or Divergence?

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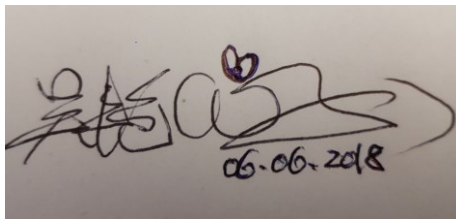
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# Dedication

**For my deceased father [吳孝柏], who lives with me still in his abiding  
love, strength and support.**

**To my enthusiastic mother Dr. [宋平], who throughout helped me pursue the meaning  
of  
the paper, the ink, the writing brush and the inkstone as  
the Four Treasures of the (scholar's) Study.**

献给遥远天国的父亲，他的灵魂，爱，依然俱在  
随同母亲坚持的能量  
教导我作为学者如何认知和深刻体会中国文人  
文房四宝的涵义

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As always, responsibility for this thesis lies with me and me alone.

# Abstract

Originating from Silicon Valley in the early 1990s, high-technology-oriented entrepreneurs-turned-philanthropists have applied venture capital principles to philanthropy in order to address intractable social problems, coining the term venture philanthropy (VP). Evolving from an emergent to a pervasive model in Europe in the last two decades, the VP approach has been considered as an innovative alternative to the traditional philanthropy (TP) type of benevolence and cheque-writing (Anheier and Leat 2006). With increasing expectations, in the context of governmental hollowing-out of social services, debate seems to have become polarised. VP is criticised for not being a solution to changes in the social landscape and for its business approaches failing to address fundamental social issues (Sievers 2001; Anheier and Leat 2006; Shiller 2012) and so remaining simply a myth.

This research explores the nature of VP based on the organisational perspectives of four funders in Scotland, with a focus on the engagement process. The new empirical data regarding the funding distribution process are gathered with the aim of answering the core questions: “why give”, “what to give” and “how to give”. A new operational framework for analysing funders is developed and is used to analyse processual trajectories mapping the convergence and divergence amongst the four funders, citing new evidence from Scotland. Case studies from the years 2011 to 2014 present four grant-giving modes respectively: 1) pure grant-giving but emerging to a business approach applied to funding distribution; 2) grant-giving but applying venture capital approaches (VP); 3) mixed grants and repayable business loans; and 4) repayable business loans. To map the feature of emergent trajectory, a new operational framework is proposed and utilised for analysis.

Research findings suggest that a pattern of resource heterogeneity is emerging in the four funding models in response to isomorphic forces. While dealing with inward (governance) and outward (market and political) legitimacy forces, hero-entrepreneurs are shown in the four cases as the key driver to identify the need for change and drive change forward. Meanwhile, hero-entrepreneurship behaviour is associated with the setting of goals, shaping the rationale of the funding scheme, marshalling resources and aligning with partners to demonstrate value adding through the engagement process.

The contribution of this research to the philanthropic field is threefold. Firstly, with regard to its theoretical contribution, the findings support conventional isomorphic change theory by arguing: a) that the agent-conduit-roles of funders are not determined by structure, but rather

individual agents (hero-entrepreneurs) play a cementing role in the change process of initiating, leading, diffusing influence and leveraging power for social change; and b) that in their agent-conduit-roles funders act as an active but reflective intermediary, change taking place in the process of legitimacy and resource distribution through the cycle of change-model shaping; convening and conducting; reflecting, dismantling and reshaping. This contribution enhances and complements the discovery by Mair and Hehenberger (2014), which suggests TP and VP create shared space for negotiation, shared objectives and a reflective isomorphic process (Nicholls 2010a). Arguably, funders should strategically consider complex and plural elements of funding and integrating a competitive market and a cooperative rationale with emotional motives into a decision-making. Realisation of social objectives will ultimately be achieved through reflective isomorphic processes, adjusting the funding structure to fit social contexts with convergent resources alignment.

Secondly, with regard to its empirical contribution, this research proposes a new typology of funders. Different from the typology proposed by Ostrower (2006), the new typology proposal is based on what the funding is for. The elements of the new typology are synthesised from why, how and what in action, i.e. grant-giving mode, engagement approach and level of risks.

Thirdly, practical contributions emerging from the implications of the proposed framework, which are discussed in the concluding chapter, may improve the quality of decision-making in funding behaviour and may also help to shape modes of governance for social problem-solving.

**Key Words:** Venture Philanthropy, Traditional Philanthropy, Social Investment, Isomorphic Change, Social Innovation, Entrepreneurship and Innovation



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# List of Abbreviations

ACF	Association of Charitable Foundations
ACOSVO	Association of Chief Officers of Scottish Voluntary Organisations
CEO	Chief Executive Officer
CIC	Community Interest Company
CFI	Community Financial Investment
DM	Development Manager
EROI	Emotional Return on Investment
ESRC	Economic and Social Research Council
EVPA	European Venture Philanthropy Association
FROI	Financial Return on Investment
ICT	Information Computer Technology
NEET	Not in Education, Employment and Training
NGO	Non-governmental Organisation
NPO	Non-profit Organisation
OSCR	Office of the Scottish Charity Regulator
PA	Performance Advisor
PI	Performance Indicator
ROI	Return on Investment
SE	Social Enterprise
SIB	Social Investment Bank
SIT	Social Investment Taskforce
SME	Small Medium Enterprise
SROI	Social Return on Investment
SV	Social Venture
TP	Traditional Philanthropy
TB	Trustee Board
TSO	Third Sector Organisation
UK	United Kingdom
USA	United States of America
USP	Unique Selling Point
VC	Venture Capital
VP	Venture Philanthropy

# Chapter One: Introduction Development of the Research Focus

## 1.1 Research parameters

Venture philanthropy (VP)<sup>1</sup> refers to funding models driven by market-oriented business approaches and applying venture capital (VC) investment techniques to philanthropy. Various studies identify VP as an emerging phenomenon with its origin in Silicon Valley (Letts et al. 1997; Sievers 1997; Dees 2001a; Kobb 2002; Porter and Kramer 2002; Wagner 2002; Acs and Phillips 2002; Carrington 2003; Frumkin 2003; Katz 2005; Pepin 2005; Alymkulova and Seipulnik 2005; Boverini 2006; Damon and Verducci 2006; Grenier 2006; Van Slyke and Newman 2006; John 2006; Moody 2008; Scaife 2008; Martin 2009; Scott 2009; Alam 2010; Bishop and Green 2010; Saltman 2010; Gordon 2011; Harvey et al. 2011; Shaw et al. 2013; Jing and Gong 2012; Zakaria et al. 2013; Buckland et al. 2013; Grossman et al. 2013; Gordon 2014; Zeichner and Peña-Sandoval 2015; Gordon et al. 2016; Hehenberger and Alemany 2017). Over the last two decades, VP has emerged as an innovative approach offering radical solutions to intractable social problems. In spite of the increasing number of studies, extant research has provided limited understanding (Gordon 2014) on both the practice of VP and its theoretical underpinning. With philanthropy itself seen as “an essentially contested concept” (Daly 2012: 535), VP practice appears to be “sporadic” (Community Wealth Ventures 2001: 22; see also Van Slyke and Newman 2006: 348).

Conceptualisations of VP may be problematic (Saltman 2009) due to its paradoxical position between business and philanthropy (Dees 2007), articulated as “philanthrocapitalism” (Bishop and Green 2010; also in Jung et al. 2016). To use philanthropy as a financing tool (Thümler 2016) may be a “technocratic fallacy” (Jung and Harrow 2015: 50); or, the renaissance of adopting “entrepreneurial approaches into philanthropy” may be related to increasing wealth creation (Gordon 2014: 86). Lack of clarity both in definition and in conceptualisation (Jung and Harrow 2015) presents VP as an adulated concept of social problem solving. Anheier and Leat (2006: 30) also warns of a tendency towards “heroic illusion”, contrary to philanthropy’s intentions of equality and pure benevolence.

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<sup>1</sup> The term “venture philanthropy” is used as standard in this dissertation. It appears in the literature and in the field loosely interchangeably with “new philanthropy”, “strategic philanthropy”, “catalyst philanthropy” and “social investment”.



These contradictions add extra complexity to setting contextual boundaries to investigate VP as a relatively new research stream. The starting-point for research on VP development is to compare VP with Traditional Philanthropy (TP), to provide the basis for an exploration of VP's unique set of attributes. This will allow construction of a conceptual framework for empirical study of different VP funding models. TP refers to the activities of funders who adopt an arm's-length relationship with their beneficiaries, acting purely as cheque-writers. A detailed definition is given in Chapter Two. Motivated to seek radical and innovative approaches to enduring social issues, VP regards itself as "effective", "strategic" philanthropy, while TP is criticised for its lack of transparency, inefficiency and insufficient capacity for social change (Anheier and Leat 2006). However, the market-driven principles of VP, seen as neo-liberal approaches, have aroused polarised debate in the scholarly world, in particular regarding application in a social context (Sievers 2001; Nickel and Eikenberry 2009; Maier et al. 2016). For example, it is questionable whether VP is able to fulfil its aspirations or deliver its ambitions based on its controversial profit-driven concepts. Study of the transmission process appears to be lacking in current research. The academic literature suggests a fuzzy area of debate about whether VP is merely old wine in a new bottle. Therefore, the present research seeks to bridge gaps in our understanding of VP by identifying VP attributes, classifying VP funding models and developing a theoretical framework.

This research explores the nature of the funding models of four funders in Scotland. It uses abductive (inductive-to-deductive) analysis in order to compare the case studies in depth (Yin 2013). To reflect the diversity in funders' funding models, four funders are chosen as follows:

- Case A provides grants, applying tailored VC principles;
- Case B provides grants, but is in the process of moving from the role of a traditional cheque-writing type of funder to that of an outcome-driven funder adopting business techniques;
- Case C provides one third of its giving in the form of grants and two thirds as loans with repayable interest;
- Case D provides business loans with repayable interest.

The spectrum of these four cases will allow the study to include competing and extreme cases from grant to loan financing. The selection rationale and criteria for the case studies are set out in Chapter Three.

Multiple sources are drawn on for the empirical data, including observation at decision-making panels (n=2), face-to-face interviews (n=76), focus groups (n=4), attendance at relevant topical events, debates and conferences (n=10) and examination of archived core documentation (n=12). The overarching research question is: “To what extent may the organisational perspective influence funders applying VP approaches to their funding processes regarding why they give, how they give and what they give?” Subsequently, the research considers the reasons for, factors in and manifestation of any differences and similarities that might emerge in the business model adaptation process as core concepts in constructing a new framework.

Focusing on the unique resource-channelling role of funders, the research applies an organisational perspective to the resource input-to-output processes. A framework is created to allow analysis of funders’ processual trajectories, based on new evidence from one country. In answering the research question, isomorphic change theory is used to analyse convergence and divergence and present new insights regarding change factors, with a view to developing a theoretical framework.

In this research, social venture (SV) refers to organisations embodying the prime goal of delivering social benefit. In the United Kingdom (UK), such organisations, including charities, social enterprises, non-profits and community interest companies (CICs), are termed “third sector organisations”.<sup>2</sup> “Funders” refers to “trusts”, “charitable trusts”, “charitable foundations”, “philanthropic foundations” and “social investment” intermediaries, whose fundamental role is that of financial conduits collecting and redistributing financial resources to non-profit-making organisations for the fulfilment of shared social service advancement (Anheier and Leat 2002; Prewitt 2006). They may have evolved from cooperatives, community or family businesses, individual philanthropists or mixed agencies. “Funders” in this research excludes corporate or politically-oriented entities. Chapter Two includes the justification of these choices.

## **1.2 Existing research relating to Venture Philanthropy**

Growing attention has been paid to VP in the past two decades by both practitioners and academics (Letts et al. 1997; Frumkin 2003; Scott 2009; Gautier and Pache 2013; Mair and Hehenberger 2014; Gordon et al. 2016). Since the seminal work by Letts et al. (1997) on VP,

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<sup>2</sup> Source (SENSCOT 2014). 9,700 CICs registered in the UK (Office of the Regulator of Community Interest Companies)  
<https://www.jrf.org.uk/what-role-philanthropy-reducing-poverty-uk>

more than forty articles may be found using the Google Scholar search engine. However, research around VP is fragmented (Gordon 2014), both topically and geographically: for example, the growth of European VP (Buckland et al. 2013), the VP model in Islamic practice (Bajde 2013), charting policy ideas (Lubienski et al. 2016) and government-sponsored VP in Shanghai (Jing and Gong 2012). The VP concept is asserted by its advocates as an effective model for social problem solving. However, little research demonstrating VP development has been based on empirical evidence (Moody 2008): specifically, providing a holistic approach to the data set to enhance understanding of the organisational funders' perspective. The literature review shows polarisation of the debate on three important questions: a) divergence versus convergence between TP and VP concepts; b) application of business and market oriented techniques to solving social problems; and c) whether or not a shift from "giving" to "investment" in philanthropy turns out to be a myth.

#### a) Divergence versus convergence

One side in the debate proposes VP as a solution for TP's ineffectiveness and lack of transparency (Frumkin 2006; also seen in Mair and Hehenberger 2014). Given their different motivations, VP and TP are regarded as two incommensurable paradigms (Sievers 2001; Anheier and Leat 2006). VP seeks accountability via change effect, while TP is regarded as driven purely by altruism. TP is seen as the old style of "cheque-writing", while VP is attractive to new resources, new investors and new partnerships (Letts et al. 1997; Carrington 2002; Emerson 2003). The emotive nature of the debate may be seen, for example, in claims from the other side that VP is a passing fad, with sarcastic comments in such as *If Pigs had Wings* (Sievers 2001). Some critics suggest that VP may be neither a panacea that can change the social landscape nor have the ability to address fundamental social issues (Cobb 2002; Anheier and Leat 2006). It seems important to steer away from such emotional debate and instead seek rationalised approaches that can provide insights into and further understanding of VP practice – fundamentally, by gathering new evidence to answer the questions "why give?", "what to give?" and "how to give?".

#### b) Market discourse versus societal discourse

VP is seen by some as a neoliberal approach (Saltman 2009) with market-driven values, contrasting with TP's loosely Marxian system of societal values. To conceptualise this supposed tension in philanthropy appears challenging, especially as there is hardly any empirical research on how any such tension is being addressed by funders. Again, VP is

regarded as a “colonial” form of philanthropy, applying market-oriented strategy and techniques, the business models of which have been argued to be ill-suited to social change agendas (Eikenberry and Kluver 2004; Wirgau et al. 2010; Gautier and Pache 2013). Moody (2008) conducted a qualitative case study to examine VP organisations and their leaders. His research indicates that VP is under-researched regarding the construction of a new culture and compatibilities among the value clashes and different professional behaviours observed between the private and social sectors. Facing such a dichotomy and the strain to implement new concepts, the question arises as to what approaches funders are to adopt and adapt in order to deliver their strategic vision.

### c) Notions of “giving” and “investment”

VP is regarded as “social investment”, creating social wealth by a more rationalised approach than that typical of TP, which is seen as merely reactive to third-sector demand for funding on its own terms. VP characteristically declares a strong emphasis on measurable impact (Frumkin 2003); it looks beyond (conventional) altruism towards a blended approach intended to contribute to both social and economic development (Defourny et al. 2016). The literature suggests a changing mind-set in philanthropic giving: a shift in concern from “what to give” to “how to give” in order to make an impact. However, there is a lack of research to demonstrate this change trajectory from giving to investment: Moody (2008: 336) argues that “[b]usiness models [need] to be adapted rather than merely borrowed”.

While the polarised debates on these three streams suggest vast gaps between TP and VP, more recently Mair and Hehenberger (2014) point to convergent as well as divergent features. Their study focuses on interaction between VP and TP at events organised by European Venture Philanthropy Association (EVPA), in an effort to understand the VP trajectory. They argue that actors who support different models can provide insights for overcoming conflicts, hence leading to the shaping of mutually beneficial agendas. Their research does not include study of funder and funding-recipient perspectives (Mair and Hehenberger 2014).

Therefore, building upon Mair and Hehenberger’s argument for mutually-related actors seeking and negotiating collective paths, the present research addresses the current gaps in the literature, using the following strategies: a) focusing study on funders from an organisational perspective; b) demonstrating insights into the opaque processes of VP practice by focusing on various models; and c) drawing on multiple sources to study interaction between actors

(funders and funding-recipients). Studying such processes may provide in-depth knowledge of VP practice and enhance understanding of theoretical components of the VP concept.

Additionally, while VP discourse originated in North America (Van Slyke and Newman 2006), in the last two decades or so, research has been conducted in different parts of the world: for example, in China (Jing and Gong 2012), Malaysia (Zakaria et al. 2013), the Islamic world (Alma 2010), Australia (Scaife 2008) and the continent of Europe (Boverini 2006; Buckland et al. 2013; Hehenberger and Alemany 2017). However, research has been unfocused, being spread across various countries and topics. This lack of a consistent and systematic approach has constrained the emergence of new understanding and new knowledge. It is the intention of this research to focus on funders, and to limit the study to a single country (Scotland).

### **1.3 Challenges in theorising venture philanthropy funders**

Philanthropy's complex attributes have made aspects of it problematic for researchers. For example, a cognitive perspective regards giving as an emotional behaviour that arises from an impulsive reaction to individual causes (Harrow 2010; Harrow and Jung 2011). There is, thus, confusion between giving at an individual level with sometimes random decisions linked to emotional thinking, and giving at an organisational level with rationalised decisions more linked to organisational governance and vision. As argued by Harrow (2010), complexity surrounds how individual behaviour is coordinated into a more managed mode of giving. VP is regarded as a new way of financing philanthropy (Thümmler 2016, in Jung et al. 2016; Hehenberger and Alemany 2017), but there remain doubts that altruistic motivation and market-oriented capitalism may be "intrinsically mutually incompatible" (McGoey 2012: 185).

Another reason why theorising philanthropic funding is challenging is its position across three domains: government (public), business (private) and third sector (community). Models of philanthropy appear across a wide spectrum of literature, from the fields of economics and politics to business and psychology. Examples include political theory of philanthropy (Reich 2012), democratic discourse (suggesting philanthropy as a political tool – Cruikshank 1999; Villadsen 2007), contractual theory (Butler and McChesney 1998), principal and agent theory (Buchanan 1965), interdependent utility (Hochman and Rodgers 1971), hyperagency (Schervish 2003), marketisation (Nickel and Eikenberry 2009; Bajde 2013), altruism (Andreoni 1990, 2006), relational theory (Ostrander and Schervish 1990; Ostrander 2007), self-interest and elements of identification in the relationship between donors and recipients

(Schervish 2006), and even the “prestige and warm glow” concept of donors’ motivation (Harbaugh 1998: 269).

Corporate philanthropy seems to focus on theories of stakeholder engagement (Mitchell et al. 1997; Godfrey 2005), “value maximisation” (Jensen 2001: 297), “developing an integrative theory of strategic balance” (Deephouse 1999: 147), and “collective empathy” (Muller et al. 2014: 1). However, few attempts have been made to study whether funders are able to live up to public expectations of their funding as a source of solutions to social problems (Anheier and Leat 2006; Jung and Harrow 2015). Duncan (2004: 2159) puts forward “a theory of impact philanthropy”, calling for the need for this form of funding to make a difference. Bringing a market-oriented approach to philanthropy (Nickel and Eikenberry 2009) has added complexity to the existing challenges to theorising. Cross-border movement between society and market has made the concept of VP a “deliberate conflation of public and private interest” (McGoey 2012: 185). Fuzzy boundaries have made the positioning and conceptualisation of VP extremely challenging. Evolving from marketisation (Nickel and Eikenberry 2009), VP falls into the following four domains:

1. Theory of impact (Duncan 2004)
2. Theory of change (Scott 2009) – related to the “social innovation” school of thought (Dees and Anderson 2006)
3. Theory of economic development (Van Slyke and Newman 2006)
4. Theory of “neoliberalism” “pushing forward the privatisation and deregulation agendas” (Saltman 2009: 55).

VP is regarded as “building [an] ecology of high performance” (Grossman et al. 2013: 6) with a view to bringing diversified funds to aid different stages of organisational development in the third sector.

The present research incorporates an organisational perspective but seeks to understand funders’ engagement processes with funding-recipients through a study of the funding approaches they adopt. The new institutionalism argues that organisations may change due to external and internal pressures and forces impacting on and driving the change process (Meyer and Rowan 1977; DiMaggio and Powell 1983).

Arguably, dominant actors create, change or suppress funding structures, approaches and beliefs. For example, Moody (2008:324) argues that VP plays a role in “building a culture” and helping to construct a “new organisational field”. Mair and Hehenberger (2014) have

identified cases of VPs actively constructing negotiation with funding recipients for shared objectives from a traditional approach to business-oriented funding techniques while refining conditions for giving. This argument highlights the importance of VP's interaction with both internal and external actors, specifically dealing with internal development and external pressures and knowledge, potentially leading to change. Hafsi and Thomas (2005) argue that resource dependence might lead to similar behaviour between organisations in the face of uncertainty. Leiter (2005) argues that a non-profit organisation is prone to imitate behaviour, and thus more likely to be isomorphic when interacting with actors in the three domains (private, government and third-sector) in shaping a mutual agenda for social services. Harrow (2011) argues that interaction among funders plays a role in governance changes, specifically at one given locality facing the same set of environmental conditions, which might become a factor for isomorphic change. VP is regarded as a likely contributor to the shaping of "professionalism" in the third sector (Hehenberger and Alemany 2017). DiMaggio and Powell (1983) regard such cross-sector professional interaction as a cause for being isomorphic, which is also asserted as proceeding "isomorphism processes" in Moody (2008: 328). New institutionalism argues that normative, coercive or mimetic forces are three mechanisms that may drive institutional isomorphic change (Pfeffer and Salancik 1978).

However, it is argued by Anheier and Leat (2006) that funders are well positioned to have sufficient resources for innovative thinking and risk-taking for change (also seen in Eikenberry 2006). Similarly, Nicholls (2010a) highlights that funders as resource-rich actors may play significant roles in isomorphism through reflective development of resource redistribution, strategic goal alignment and configuration of funding models to meet social needs.

In reality, greater resources do not necessarily lead to greater social impact. Investigating funding redistribution trajectories may provide insights into the change process and the legitimacy of adapting business-oriented techniques into a social value-oriented domain. Greenwood and Meyer (2008: 261) suggest that understanding [the] "mechanism of isomorphic change" may provide explanations for change trajectories.

There is a lack of research investigating the opaque processes of VP from an organisational perspective to demonstrate how its rhetoric is implemented in reality. Research is required to depict patterns of interaction between concepts, actors and activities in VP strategy and practice. The recent polarised debates are not helpful in demonstrating this transitional change trajectory and its associated factors. Thus, the present research aims to explore this process,

with a view to constructing a theoretical understanding of VP identifying patterns and factors influencing funders.

#### **1.4 Research questions**

The research question, “To what extent may an organisational perspective influence funders applying VP approaches in the funding process?” enables construction of an initial conceptual framework, drawing on the unique features of VP discovered from the literature review. The empirical research explores the funders’ approaches using the following research sub-questions:

- Why give? – What is the rationale of the organisational funding policy? Who are the new actors?
- What to give? – What are the funding mechanisms established by the funders? What are the new activities?
- How to give? – How to select and engage with funding-recipients and what are the direction and attributes of the giving process?

By answering these questions, the research aims to provide evidence for a process of using philanthropy as a set of financing tools for social services by investigating the characteristics of funding structures and engagement approaches (Thümmler in Jung et al. 2016).

#### **1.5 Originality**

As Jung and Harrow (2015) highlight, and as is also seen in Diaz (1999), understanding funders from an organisational perspective is still something of a “black box”. First and foremost, the present research contributes to the study of VP funders. It contributes to filling current gaps in research on VP and illustrates the concept of VP by drawing on new empirical evidence. Unlike most existing research, it studies the processes of funders at a micro-level (Moody 2008). This research also contributes insights into funders’ adaptation of business-oriented philosophy and techniques into practice by identifying the underpinning factors of the change process. Understanding the influential factors at the micro-level may be beneficial for decision-making at the macro-level and identifying the conceptual components for a theoretical underpinning derived from VP practice.

Second, by focusing on the funding distribution process this study extends understanding of isomorphic factors in funders’ convergent efforts to address social issues. While drawing on new empirical evidence in a single country, it is believed that the application will be, at least in part, widely applicable in other parts of the world. Mair and Hehenberger (2014) also argue,



as the first step in studying funders, for studying relational and structural mechanisms. This research complements their argument by proposing an emerging typology of funder, showing the change trajectory in the resource distribution process. Motivations behind the funding models and methods of funding distribution are also considered. In addition, this research also identifies indigenous and endogenous sources for isomorphic change.

The scope and focus of this study is informed by multiple sources: first, the researcher's previous practical experience as a fundraiser and entrepreneur; secondly, a pilot research study comparing VP and TP carried out in 2011 (presented in Chapter Four as Case A) served as the starting-point in shaping the conceptual framing. It is intended to contribute to a new conceptual framework for discourse on VP adaptation of business models and concepts. The new framework is expected to provide a perspective on decision-making and social change resource allocation that will be insightful for both the academic and practical worlds.

The thesis consists of eight chapters:

CHAPTER ONE provides an introduction to the thesis, setting the scene and arguing the value of the research.

CHAPTER TWO presents the literature review. It begins by exploring the historical meaning of philanthropy and four models of philanthropic giving. Critical reviews are provided on the concept of venture philanthropy regarding the strengths, limitations and weaknesses in its development. A summative account is given to identify the thematic parameters of venture philanthropy and traditional philanthropy. An analytical framework is presented for the conceptual proposals of the study, i.e. to answer the overarching research question.

CHAPTER THREE presents the research methodology. It justifies the rationale of the chosen research strategy and methodology with a presentation of the chosen approaches and a discussion of their reliability and validity.

CHAPTER FOUR, CHAPTER FIVE, CHAPTER SIX and CHAPTER SEVEN respectively present the research findings for each case studied, starting by exploring the definitional and operational attributes of the four chosen Scottish funders. Then the key data are presented for each theme of each case. This section is based upon primary interview data with relevant stakeholders in the funders' operating environment, as well as on notes taken at relevant public forums and conferences and secondary data from a range of sources.

CHAPTER EIGHT presents a cross-case analysis. It is argued that little evidence has been found to support purely divergence arguments for Scottish funders. Rather significantly, convergent features, due to the adoption of business-like approaches, are found in all four models. This evidence has been traced further in all four case studies in order to explore patterns of and drivers for change.

CHAPTER NINE presents the key research findings thematically and offers comparisons with previous research in order to identify parallels and differences.

CHAPTER TEN concludes the thesis by presenting its theoretical, empirical and practical contributions as well as discussing limitations. Future research is also suggested. The originality of this research is represented as a threefold contribution. Empirically, it provides a typology of funders based on multiple factors. Theoretically, it extends conventional isomorphic change theory, arguing that individual entrepreneurs in the field of philanthropy play an agency role in marshalling and redistributing resources in the change process. Suggestions are also made for policy-makers, including the Scottish Government.

# Chapter Two: Conceptualising Venture Philanthropy

## 2.1 Introduction

“The man who dies thus rich dies disgraced.” (Carnegie 1889)

This literature review focuses on the current development of and debates around the concept of venture philanthropy (VP). The literature review is conducted with a view to exploring organisational perspectives on the nature of VP and approaches adopted and adapted by VP funders.

The literature review is conducted in three parts. First, there is an exploration of the meaning of philanthropy from before the Victorian era up to the contemporary period, followed by the identification of various perspectives beyond the root characteristic of “benevolence”. Second, it will illustrate four models of evolutionary trajectories in organisational funders’ funding approaches from their inception up to the present. The literature suggests a shift in funding approaches from “indiscriminate” charity to scientific philanthropy. Challenges in defining and theorising (new) philanthropy are identified. Third, from an organisational perspective, in addition to exploring the nature of VP, critical reviews are engaged in regarding VP’s limitations, strengths and weaknesses in theoretical underpinning and practical development. Associated with the research questions, a summative account is given by identifying the current research patterns, gaps in research and methodologies being applied in the extant literature. Subsequently, a conceptual framework to facilitate empirical research is proposed.

## 2.2 Exploring the meaning of philanthropy

### 2.2.1 The diverse meanings of philanthropy

The meaning of philanthropy is deeply rooted in the Greek language of *Philanthrôpia*. The fundamental meaning refers to “love of humanity” (Locke 1977: 162; Smith and West 1976: 374; also in Sulek 2010: 196). Sulek (2010) outlines the evolutionary development of its definitional path from ancient times to the contemporary era. Significant scholars who have contributed to the meaning of philanthropy are identified by Sulek (2010) during that period: for example, the Baconian concept of philanthropy, Johnson’s definition (Johnson 1979), and the Websterian notion (Webster’s Dictionary, the second edition 1934) are in the dictionary. Progressing after the Enlightenment era, influential scholarly concepts are proposed by Payton (1988), Van Til (1990), Salamon (1992) and Schervish (1998). (Sulek 2010: 193) argues that “no such well-thought-out definition exists”.

Early literature demonstrates writing on philanthropy in a seminal essay by Francis Bacon (1561–1626), and is deeply rooted in ancient philosophy (Sulek 2010). Bacon considers philanthropy as a feature of the good “nature” of a human being, and as the habit of good behaviour relating to the theological virtue “charity” (Aristotle 1985: 1103a–1105b; also Sulek 2010: 195). This has also been reflected in writing by Johnson (1979; also in Sulek 2010: 196) as “love of mankind; good nature”. There seems to be a consistent pattern of defining philanthropy as a moral sentiment. Beyond the love of humanity, Joseph Addison (1672–1719) extends the argument by bringing together the heart and the mind, suggesting that while extending a loving heart to others, one must also consider reason.

This concept of Addison’s not only embraces philanthropy as good nature but also relates it to the moral sentiment, to the habit of doing well. Webster (1989) defines philanthropy as a benevolent intent to the human being. All of those definitions have demonstrated an embodiment of the emotional perspective, not only as an impulse expression, but also with a limitation relating to social aspects and rationalised thinking.

However, Kant (1983: 7) in Sulek (2010: 197) has made a distinction between “friendship” on the one hand and “beneficence stemming from a universal good will” on the other. Such a boundary suggests that the interaction of philanthropy intrinsically takes place in the social domain. Wiepking (2008) also argues that the study of philanthropy falls centrally within the field of sociological inquiry and it is a feature of social interaction grounded in emotional expression (Lurie 1969; Adamonienė and Astromskienė 2010; Hughes 2010; Cloud 2014). Sulek (2010: 197) demonstrates that Kant (1983) have extended a moral imperative to the extent of a form of “duty”, requiring capacity and rationale to fulfil – beyond desire and into action.

Payton (1988), Van Til (1990), Salamon (1992) and Schervish (1998) define more concepts that are influential in the academic study of philanthropy. Payton (1988: 1) defines philanthropy as “voluntary action for the public good”, as in the title of his book. Van Til (1990: 34) refers to it as “voluntary giving and receiving of time and money” with a motive “for the interest of all in a better quality of life”. Salamon (1992: 10) defines philanthropy as “the private giving of time or valuables (money, security, property) for public purposes”. It indicates that philanthropy is used as “private means” to “public ends” (Sulek 2010), as an innate relationship between the public and market exchange. Schervish (1998: 600) points out that defining philanthropy as a “voluntary service to a public good” is questionable, in particular,

for those activities associated with the government and markets. Both of them provide service for different intents, and for the government, it is a civic obligation. Therefore, his definition of philanthropy is as “a social relation governed by a moral obligation that matches a supply of private resources to a demand of unfulfilled needs and desires that are communicated by entreaty” (Schervish 1998: 600). Sulek (2010: 203) comments that Schervish specifies that the role of philanthropy is to “act to meet unfulfilled human needs or wants” rather than as governed by public good, which is clearly the role of government. In addition, Bekkers (2007) adds an aspect of philanthropy which also includes the donation of organs and blood. Although divergent views may be discovered in the academic world, the role of filling in gaps between markets and the public domain seems to be dominant in academic studies.

However, not only being placed in private, public and the third-sector domains, but being governed by moral obligations, has therefore made the study of philanthropy challenging. Its essential nature is driven by self-interest and impulsive behaviour, and is provoked by emotional aspects. The expressions of philanthropy may be diverse, including giving time, money, effort or other forms of resources or indeed voluntary help for the sake of others.

Philanthropic behaviour may occur in any individual, regardless of age, gender, or social class. For example, a popular piece of online news reports that a nine-year-old girl builds shelters and grows food for the homeless (Brown 2015). Motives for giving are derived from personality, family upbringing, educational background and social factors. Inevitably, those social and physiological factors may determine the nature and characteristics of philanthropic behaviour. Thus, Frumkin (2006) argues that philanthropy cannot be treated as pure science, but is also an art. It is not the intention of this research to argue what constitutes philanthropy as an art; however, the very important message highlighted by Frumkin (2006) shows that philanthropy is often intangible.

On the other hand, the individual responses to alleviate poverty and support others may make the giving messy. Hence, Harrow (2010) argues that a philanthropic organisation is better placed to coordinate such wide-ranging helping behaviour and act as an institutional channel (Gross 2003) for humanitarian response. In contradiction, Carnegie (1901) set up his own philanthropic organisations, asserting that the “self-reliance” of his beneficiaries (to avoid being a free rider) aims to support the means that may get rid of the root problem of poverty.

Philanthropy exists in the three sectors as discussed above. In the contemporary context, there are developmental and crossing-sectoral factors influencing philanthropy: a) the emerging

trends indicate philanthropic giving takes place among the poor (poor to poor), as shown in Wiepking (2007); b) the development of welfare states has shifted towards giving to the poor to balance inequality in modern societies (Reich 2012), implying an intrinsic interaction with the government and its public policy; c) increased application of business approaches to philanthropy (McAlister and Ferrell 2002; Harrow 2010). The divergent development of philanthropy, therefore, seems to have emerged in the current landscape between private and public places. A fundamental question must be asked, to what extent philanthropy may also play a unique role amongst the private, public and third sectors to enhance better human conditions. Meanwhile, philanthropy must not become a substitute for an important function of the government.

Damon and Verducci (2006) call for serious design and re-thinking for philanthropy, given its broad remit, applications and possibilities, particularly in fields with pluralism of aims, means and actors. Miller (2006) indicates that “clear thinking” on philanthropic behaviour required the following considerations: a) “motives” (why to give), b) “means” (how to give), c) “objectives” (what for), and d) an understanding of how philanthropy is applied in action. Therefore, it is the intention of this research to investigate the extended meaning of philanthropy in the above four contexts.

### 2.2.2 Diverse perspectives

Philanthropy goes far beyond the simple matter of mere concern for others. It includes expectations, motivations and the costs and conditions of giving (Schefczyk and Peacock 2010). Human reactions (for example, to the need or suffering of others) do not take place in a vacuum but are related to a certain social framework, which means (among other things) that motivation as to why to give differs according to social background. This may then impact on what to give, the how-to-give mechanism, and how much to give (value and volume). These factors are associated with wider and deeper social parameters, contributing to the difficulty over defining philanthropy. The diversity of an individual’s background, experience, perception and overall view of the world (Anheier and Hammack 2010) does impact upon philanthropic behaviour. The nature of the complexities, demonstrated from “an overwhelming body of knowledge” (Bekkers and Wiepking 2011: 924), are also shown in diverse research undertaken across a wide range of disciplinary areas, for example, marketing (Varadarajan and Menon 1988; File and Prince 1998; McAlister and Ferrell 2002; Godfrey 2005), political science (Bullock 1996; Mindry 2001; King 2004; Furner 2010), democratic discourse

(Cruikshank 1999), club theory (Buchanan 1965; Potoski and Prakash 2009), agent theory (Boulding 1962), agency theory (Miller 2002 and Mathias et al. 2017), interdependent utility (Danielsen 1975) and altruism (Harbaugh 1998; Wright 2001; Duncan 2004; Henderson and Malani 2009). This list demonstrates that philanthropy exists in many disciplinary areas (Katz 2005; Tressell 2013).

Indeed, philanthropy is regarded as a “complex and sprawling concept” (Frumkin 2006: 11; Harrow 2010: 132). Furthermore, Harrow (2010: 121–123) points out that the identification of philanthropy as “a clustered concept” may offer “multiple insights into its nature, motivation, strategy, values” with coexisting “multiple stakeholders”. Accordingly, the following section will be exploring philanthropy from four perspectives: biological, psychological, economic and organisational.

#### a) A biological perspective on philanthropy

Evolutionary theory from a biological perspective argues that helping others is a behaviour intrinsic to the human genetic make-up, although in Darwin’s view altruism is only found in kin selection. William D. Hamilton (1964) indicates that there is a trade-off point in helping behaviour between cost and benefit. Extrapolating from “Hamilton’s Rule”, philanthropy should begin at the tipping point where benefit to the recipient becomes greater than cost to the helper. This poses the fundamental challenge of applying a mathematical approach to understanding philanthropy and measuring philanthropic input and output.

Similarly, Trivers (1971) proposes a theory of reciprocal altruism, suggesting the intention of getting a return from benevolent behaviour. Warneken and Tomasello (2009: 458) set out four levels of benevolent situations after conducting experiments with chimpanzees and human babies of 19–32 months. Their research classified four types of benevolent behaviour in social contexts, namely: “providing emotional support to others” (comforting); “giving goods or objects to others” (sharing); “providing useful information for others” (informing); “acting on behalf of others’ goals” (instrumental helping). The findings suggest that altruism may be genetically identified to humans as well as being related to social norms. Altruistic behaviour seems to be related to interaction between the social situation and individual benevolent behaviour, although from a biological perspective, altruism might be intrinsic in humans. If so, this understanding will make philanthropy a normative concept across wide public and social domains.

## b) Psychological perspectives

Philanthropy as “voluntary action for the public good” (Payton 1988: 1), also seen in Radcliffe 1993) involves voluntary contributions of money, goods, time and expertise to the public good. From an intellectual perspective, philanthropy may also refer to a set of philosophical values in life, for example, as a way of gaining happiness by giving. This is typified in Adams’ equity theory by the equivalence of taking and giving (Adams 1965). Extending a psychological perspective to value beliefs, attitudes and identities, philanthropy may be related to “feeling good”, “a warm glow”, “realisation of self-identification” or “social status” (Mount 1996; Anik et al. 2009; Mayo and Tinsley 2009). To this end, Anik et al. (2009) argue that there is a correlation or pay-off between benefits and costs in self-interested philanthropic behaviour. However, measuring a tipping point may be extremely challenging, in particular in intangible matters such as non-financial aspects or aspects difficult to quantify.

## c) Economic perspective

Economic perspective examines philanthropy in terms of providing (capital) resources from “giving activities” (Clotfelter 1997; Frumkin 2006). This argument may also be underlined by tax advantages against philanthropic giving (Feldstein and Clotfelter 1976; Roberts 1984; Navarro 1988; Posnett and Sandler 1989; Reich 2012; Duquette 2016) or reciprocal exchanges (Kennett 1980; Pandya and Dholakia 1992; Hanson 2015). Frumkin (2006) suggests that overly focusing on financial capital as a form of philanthropy provides a materialistic outlook and is seemingly dominant in philanthropy research. Therefore, reviewing several perspectives is highly regarded because the social framework is intertwined with economic activity. As Acs and Phillips (2002: 1) suggest, philanthropy is a multiple notion as an “implicit social contract” nurturing “economic prosperity”. Alternatively, it is a form of “reconstruction of wealth” where the financial capital is generated from the private sector and redistributed for the public good.

## d) Organisational perspectives

Studies on philanthropy predominantly focus on the non-profit domain (Salamon and Anheier 1992; Eikenberry and Kluver 2004; Hall 2006; Payton and Moody 2008; Horvath and Powell 2016). Dees (2001a) highlights that the importance of philanthropy is about not only giving away money but also engagement in the root process of helping the poor. There is, it could be argued, a lack of critical engagement, both with the theoretical underpinning and with contemporary practice. Daly (2011) argues that philanthropy is a “contested” notion, noting its definitional complexities and that the underpinning factors and applications are also important.



Indeed, the altruistic roots of philanthropy have posed some fundamental challenges (Curti 1958). Being altruistic requires an empathetic capacity for unselfish behaviour towards others. Although the meaning of altruism has been widely accepted, it is unsatisfactory in scholarly fields due to philanthropy's contextual background within its social–economic–cultural underpinnings. The nature of voluntary freedom is also difficult to quantify or to regulate or govern (Damon and Verducci 2006). The fact that philanthropy is characteristically voluntary and impulsive, together with its existence in all areas of civic society, adds complexity to the defining of philanthropy in such a broad context and with such deep social connections. Basing an inquiry on an organisation might be a better place to understand philanthropy because it provides a boundary (although a little fuzzy) to explore social relations and resource redistribution with its actors in its operating environment. In addition, its legitimacy can be viewed from the efficiency and effectiveness of its operation at the organisational level (Sacks 1960): for example, how the resource is being distributed, by what mechanism, how and towards whom and for what reasons.

This orientation of emotional expression may influence setting goals, being an elusive mandate: for example, how to measure and evaluate intangible cognitive behaviour can be problematic. On the other hand, a lack of professional standards (Sacks 1960) also appears to be challenging when dealing with impulsive giving behaviour. Understanding the boundaries among “motives, means, and objectives” may also shed light in understanding the concept of philanthropy (Miller 2006; Sulek 2010). Harrow (2010) argues that individual expressions of “human attributes” may be translated into “powerful institutional structures“. Influenced by her argument, the present researcher intends to consider studying organisational funders' behaviour as an appropriate starting-point. It is also argued by Sacks (1960) that making an organisational inquiry could provide insights and an understanding of the role and value of philanthropy in society as well as to using organisational funding structures to investigate complexities and multi-dimensional attributes of philanthropy.

### **2.3 The role of philanthropy in contemporary society**

Diverse perspectives and challenges towards a definition have led to the boundaries on philanthropy becoming blurred. Multiple definitions and diverse categories may also have caused research on philanthropy to become rather diverse. Essentially, philanthropy is regarded as giving associated with autonomy and social relations. Given this attribute, gifts can be distributed (Powell and Steinberg 2006) for political advocacy, religious purposes (Wuthnow and Hodgkinson 1990), arts, cultural and heritage conservation, protection of natural resources,

educational advances, medical research and drug development, and any other means to develop the quality of human life or deal with inequality. In the private sector, the role of philanthropy is considered as integration of business and social responsibility, including “companies’ ability to address stakeholders’ interests” (McAlister and Ferrell 2002: 690).

Nickel and Eikenberry (2009) argue that the role of philanthropy could be bringing about social change. Addressing the relations of the market with human well-being depicts the perspective of the relationship between philanthropy and politics. Silver (1997) also argues that social change action has pushed philanthropy beyond the traditional approach, by delineating new agendas (shared goals), constructing new forces (actors and groups) and the legitimisation of resources for collective identity. Porter and Kramer (2002) also argue that contextual changes of the operational environment and social needs fundamentally change the direction of philanthropic behaviour into new thinking and new actions. Responding to this change, venture philanthropy is viewed as a “disruptive” innovation for social change through longer-term practice (Austin et al. 2006; Christensen et al. 2006; Van Slyke and Newman 2006; Nicholls 2010b). Hence, studying the funding engagement process is considered as a way of exploring and evaluating this new thinking, new expectations and new action adapted for social problem-solving, such as for example, how VP is applying business concepts to achieve its expectation of high social impact. However, philanthropy faces paradoxical challenges. This is due to a lack of precise criteria evaluating its dynamism. There is no fixed standard either. Although philanthropy is active in multiple domains, it is important to note that philanthropy is neither profit, business, nor the government (Sacks 1960: 519). Based on this understanding, the role of philanthropy is expected to fill in the gaps on human services between business, and the government. It is not to allocate symmetrical resources at the same level as the government, but to complement, and to be “compatible with, the freedoms of a pluralistic society” (Sacks 1960: 524).

## **2.4 The evolutionary trajectory shifts of four models**

### **2.4.1 Four models**

Scholars argue that philanthropy has undergone a renaissance because of expanding interests and growing wealth in society (Porter and Kramer 2002; Anheier and Leat 2006; Bajde 2013). Four evolutionary models are proposed by Anheier and Leat (2006), based on functionality and changing motivations of philanthropy. The strengths and weaknesses of the four models – (1)

the charity or service approach, (2) the scientific philanthropy approach, (3) the new scientific approach, and (4) creative philanthropy as an “ideal model” are illustrated in Table 2.1.

**Table 2.1 Characteristics of the Four Funding Models**

Model	Attributes and roles	Issues
Service/Charity Approach	Original model, rooted in religious belief (alms giving). Growing role of the industrial elite and urban middle class (Smith and Borgmann 2001). Filled in the gap in provision provided by both church and state.	Failed in “effective dissemination and replication” – “wide range of impulses” and “uncoordinated approach” to a social problem (Harrow 2010: 124). Big service provision relying heavily upon funders (lack of a long-term guarantee for service provision and sustainability). Addressed “symptoms” rather than “causes”.
Scientific Philanthropy Approach	Shift to addressing “causes” rather than “symptoms”. Notion of “social engineering”, investing in “scientific” solutions.	Problem of issues between the ownership and commercial value of intellectual property. Poverty not susceptible to scientific solutions; impossibility of using quantitative method– socially, culturally, professionally and politically.
“New” Scientific Approach	Aggressive venture capitalists for social change. Investment-related.	Value conflicts and systematic problems in cultures and communities. The “American Approach”.
“Creative Philanthropy”	Promotes innovation. Reinvigorates the role. Collaborative: innovators, change agents, contributors to pluralism	Ideal model [assertion].

Sources: Elaborated major analysis from Anheier and Leat (2006: 18); enhanced by Harrow (2010), Smith and Borgmann (2001)

### 1. The service approach

From the late Middle Ages to approximately the early Victorian era, philanthropic behaviour was carried out through charitable organisations. The practice may be defined as resource provision for charity relief: in the context of insufficient resources, charities provided services to the destitute. During that period, the majority of activities were devoted to relieving the starving and the sick (Bremner 1956). This is characterised in the enactment of the English Poor Law 1531–1782 (Slack 1990) within the feudal social structure. Charitable activities were seen as generous actions by the rich and by royalty, driven by concepts of religious mission and religious values. In response to rapid change in 19th-century society, there was a need to consider different models to meet changing needs. There was great growth in the influence on society of the new industrial elite and its associated urban middle class, whose wealth was utilised to address gaps in social services provision. Donations and

help were primarily from rich donors to poor beneficiaries, but also from the poor to the poor. Conventional philanthropy continued to be associated with religious influences.

## 2. The scientific approach

During the course of the 19th century, philanthropy gained an indisputable connection with social and political agendas. There emerged an increasing role for government taking on more duties in social welfare, while philanthropy began to be used to promote equality and social justice. Meanwhile, the role of religion was decreasing (Bulmer and Bulmer 1981; Sonenshein 2016) and scientific philanthropy emerged, greatly championed by Andrew Carnegie. Expectations and desires in philanthropy shifted to addressing deep causes rather than surface symptoms (Hall 2006; Raymond and Martin 2007). At this stage, philanthropy became more expected to be a social engine, exemplified in university science-based projects, as with cancer research funders and the Wellcome Trust. However, issues such as intellectual property appear problematic. While susceptible to scientific solutions, the complexities of social issues are underestimated. Moreover, philanthropy is criticised for lacking transparency (Barnes 2005; Harrow 2010), being a tax shelter (Alterman and Hunter 2004), highly individualistic as a result of elite dominance (Berman 1983; Ostrower 1997; Anheier and Leat 2006; Gordon et al. 2016), raising issues in governance and having ineffective management (Powell and Steinberg 2006).

## 3. The new scientific approach

In the early 20th century, in the United Kingdom as elsewhere in the West, philanthropy had become a social provision substitute for government welfare provision. Scientific approaches have engendered criticisms over ineffective giving. There have arisen calls for strategic approaches and evidence-based giving, dealing with the whole process rather than just cheque-writing. Compared with the scientific approach, the new scientific approach calls for even more radical initiatives aimed at solving obdurate social problems. Such innovations have included venture philanthropy, social investment and strategic philanthropy and catalyst philanthropy (Anheier and Leat 2006; Kramer 2009; Reddy et al. 2012; Grossman et al. 2013). Market-oriented business approaches, significantly, are considered by this school to apply to philanthropic practice. Pushed by market forces, the change theory is driven by alignment of resources between philanthropic partners and funders (Grossman et al. 2013). Engaging in the process may require new knowledge and new approaches to shaping shared goals and development plans with the new actors. It is more complicated in action than in the strategic thinking in theory.

New scientific philanthropy such as VP applies the techniques and tools of venture capital to philanthropic giving with a focus on early intervention in root problems. Although driven by the use of radical tools for solving deep issues, this approach is criticised as rather aggressive and a quick fix (Letts et al. 1997; Carrington 2002; Emerson 2003). Arguably, capital-orientated value ruins the risk of compromising (the) social value (Grossman 1999; Anheier and Leat 2006): throwing money at social ills cannot be a panacea. Anheier and Leat (2006) argue that the lack is not of money but of innovative models. Arguably, the privatisation process can be quite hostile, and is seen by Saltman (2009) as an indefensible neoliberal approach. He demonstrates the case of VP being applied to public education in the Eli and Edythe Broad Foundation, which is endowed by the entrepreneurs and philanthropists Eli and Edythe Broad with a vision to improve America's public schools and provide better opportunities for students. Literature suggests three areas of limitation in the VP concept. First, Anheier and Leat (2006) argue that using instrumental and managerial approaches to deal with philanthropy for social change may be inappropriate due to the complexity of the social problems. Anheier and Leat (2006) further assert that a better engagement process might facilitate the necessary negotiation between different logics in different value orientation, and clarify contested concepts and political process. Second, although VP intends to organise collective efforts to deal with social problems, Grossman (1999) makes the criticism that too many actors from different disciplines working together may create a chaotic situation. Third, it seems vital to understand the motivation in VP as well as its engagement process. Critics question the primary motivation of financial reward and repayment in the VP model.

#### 4. The innovative approach

Given the complexities and multiple actors in the multiple domains of philanthropy, innovative models seek smart ways of redistributing resources and radical approaches to solving enduring social problems. They may also have potential to reinvigorate the role of collectivism among innovators, change agents and contributors to rally multiple resources and solutions. The new scientific approach is presumed to achieve creative thinking for problem solving through philanthropic action. Embodying an entrepreneurial focus, the innovative approach features the mobilising of resources for social problem-solving. Innovative thinking takes the funding mechanism beyond grant-giving (as expected in new models). Thus, in the philanthropic capital market, various modes are emerging on the spectrum between traditional grant-giving and business loan provision: including VP grants, mixed funding, equity funding and business loans. Grossman et al. (2013) demonstrate a wide spectrum of engagement involving different

modes of money in VP, including angel investors' money supporting entrepreneur-leaders (Ashoka, Draper Richards, Kaplan Foundation), the business loan model (Nicholls 2010c) and mixed methods combining loans and grants (Grossman et al. 2013). Practice is in part driven by the political agenda in the UK (The Office for Civil Society 2014): current policy aims to draw on private investment and resources for social change in a time of austerity.

#### 2.4.2 Organisational perspective on the four models

The four models suggest an evolutionary shift since the inception of organisational funding. In particular, the shift is demonstrated through four patterns. Firstly, a motivational and value orientation shift, from Victorian religious conviction-based “alms-giving”, considered a short-term solution with a lack of capacity for dealing with deep-rooted societal issues, to a science-driven approach, focusing on solutions to deal with roots of problems.

Secondly, the scientific approach is criticised for only scratching the surface (symptoms) instead of being a fundamental catalyst for social change (Frumkin 2006). This has produced another shift, with funders seeking alternative funding models for better results. From practice it is recognised by some funders that the scientific approach is not necessarily a cure for social issues. For example, the issues of homelessness and unemployment are dealt with separately without curing the root of these social ills. Rather than setting up a defensive mechanism, early intervention is expected to develop an overall “immune system” or capacity to provide early intervention to prevent the social issues deteriorating or reaching crisis stage. Based on this argument, the shift in expectation might be in the direction of seeking a new or creative philanthropy focusing on dealing with enduring problems through radical approaches.

Thirdly, although society has changed dramatically compared to that of the Middle Ages, by and large the bulk of philanthropy may still operate in a conventional fashion. Driven by the call of creative philanthropy, advanced technology becomes one factor in changing philanthropy rapidly as emergent successful business tycoons have a large appetite for radical approaches to solving enduring social problems. Focused efforts, more money and marketing-oriented business tools have come more into favour (Varadarajan and Menon 1988; File and Prince 1998; McAlister and Ferrell 2002; Seifert et al. 2004; Mishra and Modi 2016). However, too little research is currently conducted on how VP is to fulfil its high expectations. Hence, this research is intended to demystify the adaptation process of business approaches being applied by funders from an organisational perspective.

Fourthly, one can discover amalgams of the four aforementioned models existing in the real world. A culture shift has been identified in the UK by Anheier and Leat (2002). Input has shifted from gift-giving to investment and entrepreneurship. Salamon (2014) also argues that new frontiers are reshaping the philanthropic market. The new frontiers in his view include new actors from private investment circles. This movement has engendered new sources of funds and new tools, hence also new intermediary agents. The emerging phenomena seem to demonstrate a new cultural repertoire (Moody 2008: 330). Despite this argument, Moody finds that the entrepreneur-turned-philanthropist plays a vital role in constructing the change process. This might be appearing as a case where a venture philanthropist is closely engaged. After the financial resources are channelled to the funding organisations, individual donors have not much to do with the funding model and how the redistribution should be channelled, a VP funder as an organisation plays a vital role in the administration of the funds on behalf of donors, governance board and public need.

Little is known about the opaque process of how VP funding organisations have dealt with channelled resources (Payton and Moody 2008). This poses multiple-level challenges and complexities, such as different expectations, interests and ways of working. However, current research indicates a myth regarding this process from private money to public benefit (Brody and Tyler 2009). Organisational funders are regarded as a channelling body, blending the characteristics of different actors and ensuring that the mission and intention of the resource providers are achieved to the public benefit. In addition, factors that might be influential on the public benefits are associated with the funding mission, funding methods and policy, governance, structure and process of relationship engagement with actors. New business tools are identified by Salamon (2014) as being utilised in VP practice and operational management. It is unclear to what extent these tools facilitate or hinder transformational change as expected by VP. Hence it is important to ask the question how the business tool is adopted and adapted by VP. Thus, echoing the arguments of Letts and Ryan (2003) and Moody (2008: 348), studying the funding process may address how grant-making uses a “high-engagement approach” to achieve social impact or high performance. Such investigation, as expected, would provide an insightful framework to map out the adaptation pathway of a business concept being applied to reality.

## **2.5 A critical review of venture philanthropy**

This section reviews the definitional issues and the current development of venture philanthropy. Also, it discusses the opportunities derived from the core proponents, lessons learned so far and the limitations of applying market-oriented approaches. Finally, drawing on the characteristics of VP, an analytical account is given to illustrate the shifting paradigm in the field of philanthropy.

### **2.5.1 Defining venture philanthropy**

The term “VP” is becoming more prevalent and acceptable within the field of general philanthropy. Since its emergence in the early 1990s, the media, professionals and donors have started to pay more attention to this new phenomenon. Despite a few attempts being made by VP advocacy organisations, there is no established universal definition of VP (John 2006). In practice, VP is typified by the relatively high level of donors’ engagement in the funding organisation “over an extended period, injecting skills and/or services in addition to finance” (John 2006: 7). EVPA, a leading European membership and network organisation, defines VP (EVPA 2012: 14) as “a blend of performance-based development finance and professional services to social purpose organisations – helping them to expand their social impact”. High-engagement appears to be a core feature of VP, although scholars (Porter and Kramer 2002; Carrington 2003) argue that is not new at all.

An increasing number of organisations actively perform under the banner of VP, somehow it is difficult to offer a succinct and comprehensive definition of the term, it has first coined in 1969 by philanthropist John D. Rockefeller III (Moody 2008). There is limited systematic academic research exploring VP’s “constructions, legitimisation and initial evolution” (Moody 2008: 325). The notion of VP poses an interesting integration of “(business)–non-profit” dichotomy. Despite VP’s small market share (0.2% of the total funding market share in the UK in 2001), its influences continue to grow (UK VP 2011), according to research conducted by Factory (2013). According to the Global Impact Investing Network (GIIN 2017), 16% increase in capital investment was committed to social goods based on the commitment of 2015, which is 15 billion dollars. The number of investment deals indicates an increase from 7,551 to 11,722 from 2015 to 2016. The EVPA survey of 2015/2016 indicates that VP investment has gone to the sectors shown in Table 2.2.



**Table 2.2 VP Investment Distribution**

Sectors	Percentage of the VP investment
Children and Youth Development	52%
Economic and Social Development	24%
Financial Inclusion	19%
Education	15%
Environment	14%
Health	7%

Source: Developed by author based on EVPA Statistics (EVPA 2016)

Even large traditional philanthropic funders have started to utilise business techniques in funding distribution models. For example, the Big Lottery Fund is piloting a practice supporting loan finance and looking into the impact of investment.

VP originates from an entrepreneurial perspective focusing on effective strategy and striving for social change (Wagner 2002; Emerson 2003; Frumkin 2003; Prager and Sector 2003; Katz 2005; Tranquada and Pepin 2005; John 2006; Moody 2008; Van Slyke and Newman 2006; Scott 2009; Saltman 2010; Williamson 2016). It is also treated as a marketing approach, as seen in various studies (Bishop and Green 2015; Bishop and Green 2010; Katz 2010; Rogers 2015; Phillips et al. 2016). The phrase is used interchangeably with “catalyst philanthropy” (Grossman et al. 2013). Phillips and Jung (2016) (in Phillips et al. 2016) indicate that the label of “new philanthropy” is applied to the combination of a scientific philanthropic approach, as in Andrew Carnegie (1901), and the application of business models (Porter and Kramer 2002; Moody 2008; Salamon 2014) with a view to growing beneficiaries’ independence. Thus, Frumkin (2003: 9–10) identifies the three intellectual pillars of VP:

- “Getting to scale either through franchising or commercialism requires a different kind of financial support”.
- “Improving a non-profit strategy through management consulting to lasting success”.
- “Developing new metrics to measure organisational success and social return on investment”.

VP is perceived as an agent of change through longer-term financial support and engagement of consultative support. Whether the connotation of the three intellectual pillars can be achieved, it is debateable. Polarised debates can be found in the literature review. Alto (2013) argues two vital components: investors must specifically understand social issues and implicit objectives must be set in a clear manner and make sense to the actors involved. The theoretical base seems to blend business and social value. This implies the need for compatibility of

business model solutions imposed on the social field as well as interaction among multiple actors. The majority of members of the EVPA embrace the six definitional characteristics displayed in Table 2.3.

The theoretical base of VP seems expectant upon social change. VP might be considered as standing between two schools of thought: using business tools to resolve intractable social challenges; or radical and innovative social solution. However, gaps are possibly present between “wishes and reality” (Defourney et al. 2016: 27, also in Jung et al. 2016). The articulation is unclear in defining the connotation of altruism in this context; to what extent the VP funding mechanism may establish a practical and social relevancy; and how to configure and manage the tipping point to ensure social value can be treated consistently as the top priority.

**Table 2.3 Venture Philanthropy Definitional Characteristics**

<b>Definitional Characteristics of Venture Philanthropy</b>
1. <b>High Engagement:</b> venture philanthropists have a close hands-on relationship with the social-purpose organisation they support, driving innovative and scalable models of social change.
2. <b>Tailored Financing:</b> venture philanthropists take an investment approach to determining the most appropriate financing for each organisation.
3. <b>Multi-year support:</b> venture philanthropists provide substantial and sustained financial support to a limited number of organisations to become financially self-sustaining by the end of (relatively) long-term funding periods.
4. <b>Non-financial support:</b> in addition to financial support, venture philanthropists provide value-added services such as support for strategic planning, marketing and communications, executive coaching, human resource advice and access to other networks and potential funders.
5. <b>Organisational capacity building:</b> venture philanthropists focus on building the operational capacity and long-term viability of the organisations in their portfolios, rather than funding individual projects or programmes.
6. <b>Performance Measurement:</b> VP investment is performance-based, placing emphasis on good business planning, measurable outcomes, achievement of milestones and high levels of financial accountability and management competence.

Source: EVPA (2012)

Moody (2008) argues that VP may be an evolutionary model (Wagner 2002), which appears to present re-construction of the philanthropic field with new resources, actors, thinking and actions. Considering the business expertise aspects of VP, the construction of VP theory might be drawn from an integration of practice and funding logic. Blending social and business value in practice intrinsically adds complexity and creates challenges for the implementation process. Critics might object that the blended approach has a tendency to “make philanthropic capital market a chaotic cycle” (Grossman 1999: 5).

### 2.5.2 Critiques of and challenges to venture philanthropy

VP embodies radical solutions to social problems; however, the literature review suggests that it raises controversial arguments. This section includes an analytical review building upon the critiques drawn from the literature. The theoretical challenges are summarised in Table 2.4, followed by the discussion of practical challenges.

Five critical challenges facing VP are identified in Table 2.4. First, theoretically, VP faces a clash in values between social and financial motives, and between a mix of altruism and egoism (Nielsen 2017). Wolinsky (2017) argues that this brings conflicts of interest amongst different actors. There are tensions and contradictions inherent in the VP model (Dees 2012; Scott 2009), specifically in the five areas shown. “Lack of agreement on terminology” makes it difficult “for scholars to position their study” (Maier et al. 2016: 65). Adaptation of business approaches is prone to “mission drift and loss of idealism” (*ibid.*). Lack of boundaries and clarity in the language used may overly highlighted the business logic. Mitchell and Sparke (2016) demonstrate the gaps of using business approaches applied to philanthropy that are evident between “wishes and reality” (Defourny et al. 2016: 360, in Jung et al. 2016).

Second, the philosophy of VP has been driven by a desire for growing independence of non-profits. However, the literature suggests VP contributes to “dependence” because of the high complexity of the process (Herrera and White 2017; Ferguson 2017) attracting so much attention, leading to less focus on funders’ role being perceived for social change. Thus, a theoretical focus should cast light upon the result and its impact on social change, and how the impacts are scaled up according to their original intent.

Third, market-driven approaches are ill suited for VP, in particular those which constrain transformative change (Edwards 2009). Building a business culture of “high performance” seems to be challenging for VP. Business models alone cannot yield social return or social impact. Wirgau et al. (2010: 628) argue that application of business models to philanthropy may “slow” the social change process given its incapability to “help alleviate exploitation and inequality”. VP’s perceived leadership of social change is considered as a “false message” (Nickel and Eikenberry 2009:984) on the discourse of market consumption, where capitalism is seen as the cause of poverty and inequality. In contradiction, capitalism based on consumption values is being used as a means to eliminate social problems (Maier et al. 2016). Its capacity is being questioned for social change (Anheier and Leat 2006). Such a neoliberal rationality is regarded as “unsustainable” for human service (Mitchell and Lizotte 2016).

**Table 2.4 Critical challenges (from the literature on VP)**

Challenges	Criticisms of VP	Authors
<b>Value clashes in VP model</b>	“Lack of agreement on terminology”	Wagner (2002:343)
	“Clashes between duty and virtue..., altruism and egoism”	Nielsen (2017:495)
	“VP straddles two worlds.” “You can’t be both”.	Wolinsky (2017:22)
	“Tensions: 1. Spontaneous caritas versus reasoning, 2. Sacrifice versus investment, 3. Giving versus markets, 4. Relieving suffering versus solving problems, 5. Caring for people versus empowering them”	Dees (2012: 323–329)
	“Simultaneously creates tensions, competing demands, and ethical dilemmas”	Smith et al. (2013:407)
<b>Inability to facilitate independence of non-profits</b>	VP contributes to “dependence” rather than independence	Herrera and White (2017)
	VP [process] “complicated....no role played in social change”	Ferguson (2017)
<b>Market (business-structure) approach ill-suited</b>	“The marketization of philanthropy as a falsely transformative discourse”	Nickel and Eikenberry (2009: 976)
	“Scholars struggle to position their work in a larger context”	Maier et al. (2016: 64–75)
	“Underlying causes of failure are left unaddressed” [market approach]	Maier et al. (2016:65)
	“Mission drift and loss of idealism”	Eikenberry (2009:137); also in Han (2017)
	“The neoliberal rationalities of constant entrepreneurial reform were unsustainable”	
	[Business logic] “overly highlighted”	
<b>Inconsistency and divergence in the philanthropic market place</b>	“Increased emphasis on management concerns and short-term profitability”	
	Using financial means to engage philanthropy poses “possible risks and unintended consequences”	Salamon 2014; also Thümler (2016: 21–22)
	“creates a major puzzle”	Jung et al. (2016:1474)
	“Hegemony [dominate social elites] is won and secured by an alliance of diverse societal groups”	Fioramonti and Thümler (2013:229);
	“Triggered...highly critical public and political reaction...comprehensive attempts to re-embed and re-regulate [ financial market]”	(Jung et al. 2016:1474.)
<b>Difficult to yield success</b>	“[Financial incentivised approach] idea orchestration”, “Dressing show”, “does not produce idea incubation; rather suggests a private control in policy making”	Lubienski et al. (2016)

Source: Developed by author based on literature review

Fourth, VP creates a major puzzle (Thümler 2016) as it provides inconsistency and divergence within the philanthropy market place. Nielsen (2017: 492) argues that “perceived inconsistency” discovered in VP might be a “hurdle” for organisational development as conflicts of interest are discovered (also in Wolinsky 2017). On the other hand, Williamson (2016) argues that VP imitates investment-oriented technical tools in being disruptive and derived from a political agenda, with government seeking to use funders as a substitute for public service.

Grossman (1999:4–6) demonstrates that in a profit-making model actors (investors, organisations and customers) form a “closed loop” where everyone understands the language, such as “return on investment” (ROI), “accountability”, “rules of the game”, systematically

creating value. On the other hand, in a philanthropic capital market, the actors “move in a fundamentally random manner” that makes the system “opaque” and “chaotic”. There are neither universal criteria applying to funders, nor an “information system for measuring the effectiveness of philanthropic capital”. Grossman (1999) argues that capacity building for a non-profit organisation does not mean effective services for the client’s needs. Regarding loan finance to non-profits, the notion of VP has also raised questions about affordability (Dees 2012). Bringing actors from private, public and community together without agreeing on a theoretical stance and language poses intrinsic challenges as the model constrains progress, synergising and acceleration of development. Larger collaboration amongst different actors has raised the bar high for regulatory compliance (Ramsey et al. 2017). Fioramonti and Thümler (2013: 229) argue that social elites might bring domination of “cultural hegemony”. Thümler (2011: 1100) argues that adopting or adapting “business methods” and “language” may diminish the autonomy of philanthropy due to its top-down approach in policy arena. The surge of interest of applying competitive logic and “earned income” from the market place into philanthropy sector (Thümler 2016: 362, edited Jung et al 2016). Given the complexities, comprehensive attempts are required to “re-embed” and “re-regulate” the current financial market to examine definition, meaning and its contribution for society.

Fifth, VP faces critics and challenges regarding its ability to yield success. VP resources are not fully aligned to increase its competences for non-profits (Herrera and White 2017) while striving to balance and meet expectations from government. Although after two decades of development, VP might be still in its “infancy” in putting strategies into practice, gaps are also evident in capturing social return (Defourny et al. 2016), its definition, its articulation and the reconciliation of the contradictions.

### Practical Perspectives

The risk inherent in adopting capital appraisal techniques to adjudge services to vulnerable groups, as Damon and Verducci (2006) note, is that benevolence goals may be lost; as Husock (2006) argues, effective VP aligns both social and financial (or market) solutions. Maltby and Rutterford (2016) suggest that VP needs to achieve this alignment by interlinking objectives both for providing the service solutions to the poor and offering a return to investors. Simply changing the funding model, however, cannot guarantee goal alignment, since even at low rates of interest, loan financing may exclude the very poor from involvement; the loan VP model may, therefore, simply leave economic exclusion intact. Harrow and Jung (2015) emphasise

that the effects on the reach of VP from adopting a loan model need careful analysis over time. This is especially so in terms of the social impact, rather than financial returns, resulting from VP: social returns and appropriate accountabilities take longer to emerge than financial returns, leading Scarlata and Alemany (2008) and Hehenberger and Alemany (2017) to call for “patient” capital investment by VP. Making a wider point, Coffey (1999) notes that hands-on VP involvement may challenge the autonomy of the recipient and result in the VP becoming operational and less strategical, as Eikenberry and Kluver (2004) argue. In short, the organisational and financial arrangements between VP and the recipient body may begin to dictate the direction of social activity rather than strategy guiding structures.

Identifying investment routes that avoid structures and relationships potentially dictating the social activities of the recipient, as Saltman (2009) argues, is then a major challenge for VP. This is especially so when the donor VP lacks specialist sector knowledge or itself deploys governances that sit uneasily with the social goals and processes of the recipient. Such arrangements may prove especially difficult in high-risk social ventures, beyond normal charitable giving activities, as Anheier and Leat (2013) note. In addition, Ostrander and Schervish (1990) argue that tension in the relationship between the funder and the recipients may influence delivery of the agreed outcome.

Hafenmayer (2013: 539) identifies eight practical challenges facing VP:

1. “Misuse of donations”: methods of handling financial investment portfolios appear to be messy and mismatched with investment products in the various financial markets, for example, equity investment and loan finance. There is a systematic lack of support for decision-making or understanding the investment product, specifically for social purposes.
2. “Lack of professionalism”: business concepts are brought into social organisations without adequate justification and full understanding as to contextual differences. To counteract this business professional should build up knowledge of social issues, while social professionals should improve their knowledge of business concepts.
3. “Distracting focus on low administrative costs”: the competences, skills and knowledge of the management team are undermined by emphasising the need to minimise the cost of administration.
4. “Too many volunteers in important positions”: this poses challenges to the management of volunteers in mixed operations.

5. “Budget-driven development aid”: responsibility and accountability should be prominently flagged primarily for social purposes.
6. “Breeding immaturity”: long-term mission and goals are “more or less dictated” by funders rather than from the bottom up, as during the past two decades.
7. “Wasted innovation”: a lack of long-term philanthropic commitment and action for change.
8. VP tools and processes need to be adjusted to fit the designated purpose.

Anheier and Leat’s (2006) point may be added to this list: that over-focusing on processes, especially investment appraisal and diligence, may leave VP with insufficient bandwidth to help deliver social goals. Salamon (2014) makes the nuanced point, that in seeking to learn business methods from VC and given the preponderance of VP giving circles (500 in the US alone), some social projects may apply for VP funding, when it is inappropriate to the work they are doing; for example, in the timing of exit. Additionally, where investments are syndicated to raise higher funding amounts, requiring goals relationships to be negotiated, client organisations may find meeting diverse funding circles’ goals difficult.

To summarise, VP activities straddle a range of governances, including private, public and community sectors, bringing a range opportunities and difficult choices; what Bajde (2013) terms “heterogeneous relationships” and “clashed values” the results of which redefine the nature and practice of VP. The more agents are syndicated into a VP venture, what Grossman et al. (2013: 13) term “scale up” and “systems change”, and the wider the range of VP investments (from concept-funding, seed-investment to major international projects) then the greater the complexities. VP constantly wrestles with those challenges by “the mix of actors” from the public and private sectors Buckland et al. (2013: 37). VP is perceived not only adding amounts of investment, but also complexity of the notion of investment, monitoring and exit processes.

## **2.6 Constructing a conceptual framework**

This section takes five themes emerging from the literature review and suggests a framework for analysis of VP. In doing so, it justifies the need for a new framework. The themes are: (1) motivation and value orientation; (2) governance in strategic balance and choices; (3) entrepreneurial investment and approaches; (4) engagement process – setting up systems for enforcement; and (5) exit strategy.

## 2.6.1 Themes from the literature review and a proposed framework

### 1. Motivation and value orientation

VP is outcome-driven, privileging financial and social returns exemplified in numbers of people vaccinated or children accessing computers. However, as Wagner (2002) points out, VPs may exceed their capability. Studies by Merchant and Beach (2014), Cobb (2002) and Frumkin (2003) suggest that early VP motivations to address intractable social problems (such as malaria vaccination) were shaped by their experiences in high-tech businesses, such as networking, financial diligence, leverage of funds: in short, venture capital ways of working, driven by profit and not altruism. Early VP, therefore, was sharply differentiated from TP having (a) an ambiguous articulation of benevolence; (b) top-down dictated (private-sector influenced) goals; and (c) an imposition of personal and social values. This initial VP raised expectations in two ways. Firstly, high impact: for example scaling up, widening service access and creating new ways of solving social problems. Secondly, blended value: for example, “return on investment” (ROI), “social return on investment” (SROI), “financial return on investment” (FROI) or “emotional return on investment” (EROI) (Eikenberry and Kluver 2004). It is not known how these tensions are being resolved in practice, which is one justification for this research.

### Motivational shift via modes of giving

Over the last two decades, philanthropy literature has focused less on altruism as a motivator and more on innovation, perhaps reflecting the demand for philanthropy in areas no longer serviced by the welfare state and, as Moody (2008) argues, philanthropists seeking greater challenges. This section illustrates how motivation varies with funding modes.

Table 2.5 takes four areas of motivation (from emotional/altruistic; blending private and public interests; and investment-like business approaches, such as venture philanthropy or loan finance for non-profits) and illustrates how they differ by funding models, followed by discussion in turn.

### Emotional Giving – Altruism

Philanthropy derives from the Greek philosophy of “love of mankind”, suggesting in its origins an emotional, (often) altruistic motivation, deeply rooted in benevolent intent for the wellbeing of others. The action may be impulsive, subjective and voluntary, which poses managerial challenges as its impulsiveness and being individual relating to personal causes. This



motivation, as Baker (2010) argues, often refers to elite, powerful donors, noting with Anheier and Hammack (2010) that motivation also varies with context and the background of agents such as education, life values and upbringing. This type of motivation is relational, rather than transactional and may result in dependency of recipients on donors.

**Table 2.5 Comparison of Four Motivational Values**

<b>Ideology Background</b>	<b>Strengths</b>	<b>Weaknesses</b>	<b>Underline philosophy and value orientation</b>	<b>Social Context</b>
<b>Altruism</b>	Translating individual impulsive reaction into collective motives in an organisational funder	Lacking of standard regulation to govern emotional, voluntary, and impulsive behaviour	Emotional reaction, complimentary resources, build up resource dependency	Victorian era influence by religious and moral sentiment
<b>Private and Public Interest</b>	Relating to private and public actors through joint up efforts, engaging in social welfare delivery	Tri-chotomy feature amongst the state, public and market	Stakeholders interests, resource directionality, resource inter-dependency	Post-World War II, the social welfare and security system being developed
<b>Responsible Giving</b>	Rationalised thinking with efforts pursuing maximised giving effects	Lacking of regulations and standard to define "responsible" giving behaviour	Regarded as effective and strategic, rationalised giving model	21st century, developed demand on accountability and efficiency on philanthropy
<b>Socially Responsible Investment</b>	Developed accountability and resources pools, expecting developed professionalisation, growing independency	Still in an infant stage to configure effective ways	Accountable, shifting from altruism charitable activity to investment, expecting returns from conditional giving	Austerity, financial crisis, society re-thinking the role of philanthropy, and the meaning and method in creating values.

Source: Developed by author from the literature review

## Public and Private Interest

Studies show that philanthropic funders are fundamentally derived from the private sector's independent grant donation (Shaw et al. 2013; Jung and Harrow 2015). For centuries, funders have played a significantly large part in public life: for example, preservation of traditional culture and heritage; participation in the democratic process; support in foreign policy development (Anheier and Leat 2002); advancement of education and social/scientific research; the balance of the extreme agreement between socialism and capitalism as indicated in Adam Smith's invisible hands. Arguably, a funder provides a unique place for piloting policy and practice changes both for business and government (Carson 1999; Sacks 1960; Anheier and Leat 2006; Hammack and Anheier 2013). However, critics present a bias towards the role of a funder in the conjunction of the private and public space. For example, organisational funders are expected to address the gaps generated by government austerity and problems in society (McGoey 2014).

Correspondingly, engaging with government, however, also implies a negative impact (Baker 2010) because the dominant philanthropic power associated with elections may, in fact, undermine the democratic process. Particularly, the philanthropic money may rather be used to influence favourably the voting constituency. Similarly, the hegemony power is also evident in the creation of the big three funders in America, i.e. Carnegie, Ford and Rockefeller. In the process, more exactly, a contradictory relationship has emerged between democratic principles and elite dominance (Berman 1983; Baker 2010).

Similarly, tax-exemptions are perceived as another motivation in the political domain (Bernholz 1999). Correspondingly, in recent times increasing political efforts are evident in donor incentive schemes, particularly, for example, in UK political practice (Pharoah 2011). Anheier and Leat (2006) likewise argue that philanthropy should be motivated as a social change catalyst, and not as the substitute for government social welfare. Therefore, it is imperative to understand the role of an organisational funder through the characteristics of its governance, i.e. the use of its private resources to engage society for problem-solving (Healy and Donnelly-Cox 2016). Similarly, resource inter-dependence is seen by the actors coming from the three sectors, given the diverse interests of the various stakeholders.

It has been observed that the organisational funders have existed in the last two centuries as large individual endowment funds, which have been filtered through self-sustained non-profit organisations through changes in government policy and regulation (Anheier and Hammack 2010). Arguably, due to the attributes of self-governance and freedom, the organisational funders hold the power to ignore external pressure (Anheier and Daly 2007; Arno and Pinede 2007; Jung and Harrow 2015).

With the progression of time, a shift is evident in the political domain in terms of private interference: for example, VP intends to influence education (Bernholz 1999; Saltman 2010) and American foreign policy (Berman 1983) through its funding investment and control; it is also evident from critics' feedback that funders might use research sponsorship as an extension of intellectual power. Although funders' power is not monolithic, its hegemony has been seen as unchallenged (Baker 2010) due to the nature and characteristics of owning rich resources. In summary, funders' motivation seems multifaceted and, as Jung and Harrow (2015) conclude from examining healthcare, invites deep and contextual investigation.

## Rationalised Giving and Responsible Giving

Rational and responsible giving, the third motivation category in Table 2.5, although well-intentioned, may, as Damon and Verducci (2006) suggest in their book *Taking Philanthropy Seriously*, be harmful if not conducted with discretion and dignity. On the one hand, funders may contribute positively to knowledge advancement, freedom in risk-taking and providing free resources. On the other hand, they may also precipitate a negative impact during the giving process, for example leading to value conflicts, lack of accountability, idiosyncratic beliefs and priorities, destabilising communities and even lack of professional skills, which could block genuine social improvement (Damon and Verducci 2006). How funders negotiate ends and means is, therefore, important to community capacity building (Bogert 1954; Anheier and Leat 2006). Thoughtful and innovative design is needed.

Anheier and Leat (2006) argue that altruism is necessarily paradoxical in that funders want to add value, but in terms dictated by themselves. This can be seen in the UK's Charity Act, in which organisational funders are defined as neither public nor private – they occupy a hybrid, in-between governance position, leading researchers to question whether funders themselves are best placed to dictate ends and means (Jung and Harrow 2015; Healy and Donnelly-Cox 2016). As Damon and Verducci (2006) argue, all major organisations face the challenge of aligning rational means and ends to non-rational social situations; an issue sharply posed for VP who seek to apply business methods to intractable social issues seeking innovative solutions. Mobilising resources across governances with final return motives, Havens and Schervish (2013) note that alteration of funding mode may influence governance. Similarly, Babiak and Thibault (2009) assert that the involvement of cross-sector actors poses challenges in governance structure and the complexities may hinder the clarification of roles, and responsibilities from the cross-sector fertilisation. This research explores these complex issues associated with organisational funders' motivation.

Regarding giving and social investment, the fourth motivation category in Table 2.5 involves repayable loans or equity investments seeking a return and is a controversial area of philanthropy research. The UK Cabinet Office speaks of “investment made for a social purpose in organisations committed to delivering benefits to society and the environment” (Office of the Third Sector, accessed Dec 2014). Numerous researchers in the UK suggest such funders are motivated by filling gaps created by reduced state expenditure (The Robertson Trust; The Ashden Trust, CAF and Esmée Fairbairn Foundation). Returned giving has social impact and,

as ACEVO (2010) notes, a financial return ranging from return of funds, a lower than market rate return on funds or a market rate return on funds. This mix of social and financial return introduces complexity (Social Investment UK Government 2012); a “responsive model” (ACEVO 2010); an “alternative way” (Ashden Trust website); and “cross sector collaborations” (Robertson Trust website). There is yet insufficient academic research to be definitive about the motivation of such philanthropy or its results.

To summarise, the literature suggests a shift in motivation of philanthropy from emotional to rational and conditional (Jung and Harrow 2015). A funder’s motivations (Table 2.5) can be categorised as altruism, private-public interest responsible giving and responsible investment reflecting a shift from grant to loan funding and from dependency to independency. Further research will reveal how cross-governance ends and means issues are being handled.

## 2. Governance in strategic balance and choices

Nickel and Eikenberry (2010) refer to governance as the actions of the trustees’ board, distributing the surplus wealth of entrepreneur-donors for the well-being of others. It fulfils a function of distributing financial benevolence towards the public in general.

With increasing development from cross-sectorial collaboration, Jung and Harrow (2015) argue that philanthropy is envisaging a new role in areas overlapped by the private, public and third sectors. In normal practice, funders act autonomously with their independent resources. The funders’ role blends resources channelling through the problem-solving process. Its governance may be exhibited in two dimensions. One is to sustain ongoing capacity to draw on resources for distribution. The second is to gain sufficient resources and maintain its service.

One might argue that in the Victorian era, the “Carnegie’s child” type of funding was predominantly generated from private wealth resulting from industrialisation (Anheier and Leat 2013). Now, however, funders operate in a new environment, characterised by a highly developed technology-oriented information network. Compared with the former era, this is a much more complex working environment, given the nature of the private sourcing channels. Indeed, as Salamon (2014) suggests, there may even be multiple channels, as for example in the case of online donations or private equity investment. In such a complex phenomenon, understanding better what determines funders’ decisions and actions would be very helpful.

In particular, philanthropy is expected to fill in hollowed-out government services (Jung and Harrow 2015). Yet the governance of VP, as a neoliberal model, is employing business practice

and metrics (Lipman 2015) and ways to “restructure efficiency and effectiveness” (Clarke and Newman 1997: 81). The emergence of new partnerships adapting the business-oriented model inevitably also involves new actors, such as venture capitalists and new types of investor. Scott (2009: 119) argues that the hallmark for VP is seeking out “potential investment rather than waiting for grant application”. How the value tension of VP is being resolved through proactive engaging with potential investees.

VP governance may need to reconcile such contradictions: for example, by setting up a new funding policy, new mechanisms and a new system that ensures smooth delivery. Huybrechts et al. (2010) argue that governance is determined by the stakeholders, characteristically giving voices to different actors, including funders, partners, supporters and beneficiaries (Munkner 2004; Rijpens 2010). The presence or absence of actors may have an impact on mutual goals pursued through a consensus (Campi et al. 2006). VP seems to be characterised by its collation of multiple interests, beliefs, skills and professional competences of actors at multiple levels within diverse spheres. As Salamon (2014) establishes, emerging characteristics of VPs are, for example, new actors, new resources or modes of resource, new tools and new agents (intermediaries). Noting Scarlata and Alemany (2010), non-profit governance may constrain the redistribution of the profit; Desa (2010) argues research on VP governance overly focuses on policy. Arguably, actors might affect the change to or shaping of a new model of governance with regard to what determines the funding regulation and mechanism to comply with that regulation. VP’s development might be leading to new knowledge and competence emerging at the crossroads formed by the cross-fertilisation of the three sectors. To what extent may funders set up an appropriate infrastructure to gather information for regulation and decision-making, and hence, what type of characteristics will show in governance?

### 3. Entrepreneurial investment approaches

Although VP is often driven by entrepreneurial attempts by successful business tycoons, it seems to be claiming magic powers in addressing enduring social problems: it is not the panacea for all social ills. Its capacity might fail to address fundamental social issues (Anheier and Leat 2006). Critics argue that imposing a capital model on philanthropy may not work because the outcomes and accountability are defined and set in financial terms. In the social world there is more intangibility, and deeply rooted social issues take a longer time to change in the embedded culture of a community. More money does not imply a better solution.

However, VP investment appears to have three characteristics: a) investment rather than charitable giving; b) being outcomes-driven; and c) a mixed return.

More notably, Dees (2001b) and Urban (2010) suggest that VP represents a new paradigm shift from “receiver” to “investment” through a collaborative relationship. In the opinion of “new philanthropists”, VP is regarded as investment to create social wealth rather than charity (Anheier and Leat 2006: 21). In this process, VP suffers high risk bearing through high-level and long-term investment.

Although assimilated processes are discovered by studying VP and VC in terms of using business investment tools (Scarlata and Alemany 2010), six distinctive stages are identified as: origination; VC firm-specific screen; generic screen; first-phase evaluation; second-phase evaluation; and closing (Gordon 2014). Although those researchers identified the financing structure and process, there remains a knowledge gap as to how the changes are to be transformed through the identified business techniques.

#### 4. The engagement process

TP focuses on roles, while VP focuses on processes. A process is the sequence of interdependent and linked procedures that, at each stage, consume resources and contribute towards outputs. Outcomes of the engagement process then serve as inputs for subsequent stages, until a desired goal or result is reached. Moody (2008) suggests the VP process can be considered as a cultural repertoire and isomorphic process as funder and recipient relationships, networks, communications and new knowledge could provide new insights from this hybrid culture process. The perspective of close involvement, consultative engagement and impact measures agreed between the funders and recipients seem all to be influential on the funding mechanisms. In the process, what system is in place to gather information to inform ongoing decision-making and the level of risk taking and, in particular, to fulfil due-diligence requests by OSCR (Office of the Scottish Charity Regulator).

Wagner (2002) suggests that the use of business tools, hands-on engagement, risk, innovation and returns are distinctive features of VP. Close involvement in decision-making has had a negative impact in some cases, as social value should not be overridden by monetisation. Measuring social return has been challenging (Abbott and Monsen 1979; Austin et al. 2006; Arvidson et al. 2010; Fox and Albertson 2011). Thus, an in-depth study is vital to investigate

what characteristics are related to the process of assumed social change, and to understand the patterns and pitfalls in practice.

## 5. The exit strategy

The concept of exit strategy is borrowed from VC, the entrepreneurship and business field. The notion of exit strategy appears in a number of publications as VP's core feature (Tranquada and Pepin 2005; John 2006; Van Slyke and Newman 2006; Moody 2008; Defourny et al. 2016; Estapé-Dubreuil et al. 2016). In the field of philanthropy, exit strategy refers to the exit point, where the funding-recipient is independent in running its own revenue model to sustain itself both financially and socially. In the entrepreneurship literature, "exit" is defined as a process in which entrepreneurs remove themselves from the organisation's ownership, structure and decision-making (DeTienne 2010). DeTienne argues that without an understanding of exit, a study of the entrepreneurial process appears to be incomplete. In addition, timing exit point is crucial (Mathias et al. 2017).

EVPA (2014: 1) defines exit strategy as an "action plan to determine when a venture philanthropy organisation can no longer add value to the investee, and to end the relationship while maintaining/amplifying the social impact, or minimising the potential loss of social impact." (Also seen in Boiardi and Hehenberger 2014: 7.) Five steps are identified as exit strategy constituting the determining key considerations, developing an exit plan, determining exit readiness, executing the exit, and post-investment follow up. Conditions are set for exit according to the achievement of agreed goals; follow-on investors are identified and ready to take on the activity to move on; until to the point that the already involved funders feel on longer-time value adding.

Pepin (2005: 4) highlights VP's "special focus on sustainability". Cobb (2002) is concerned that return measures may make exit strategy challenging to develop. Contradictory views are found in the literature. For example, Scarlata and Alemany (2010) suggest two types of VP at the exit point: i) when funded organisations become sustainable and have capacity to maximise the social impact; ii) when the funded organisations start to generate financial returns.

Salamon (2014:231) argues that VP's type of high engagement has a tendency to design "more thorough and complicated exit strategies" based on investment time, quality of relationship and planning for sustainability beyond the investment.

Theoretically, up to the exit point, non-profits are expected to be independent through VP support; however, recent research suggests the opposite, rather a growing dependency (Herrera and White 2017). Thus, the review indicates that an understanding of exit strategy for funders could provide a completion point of the funding relationship at a given time.

## **2.7 A conceptual model to assess the new philanthropy change process**

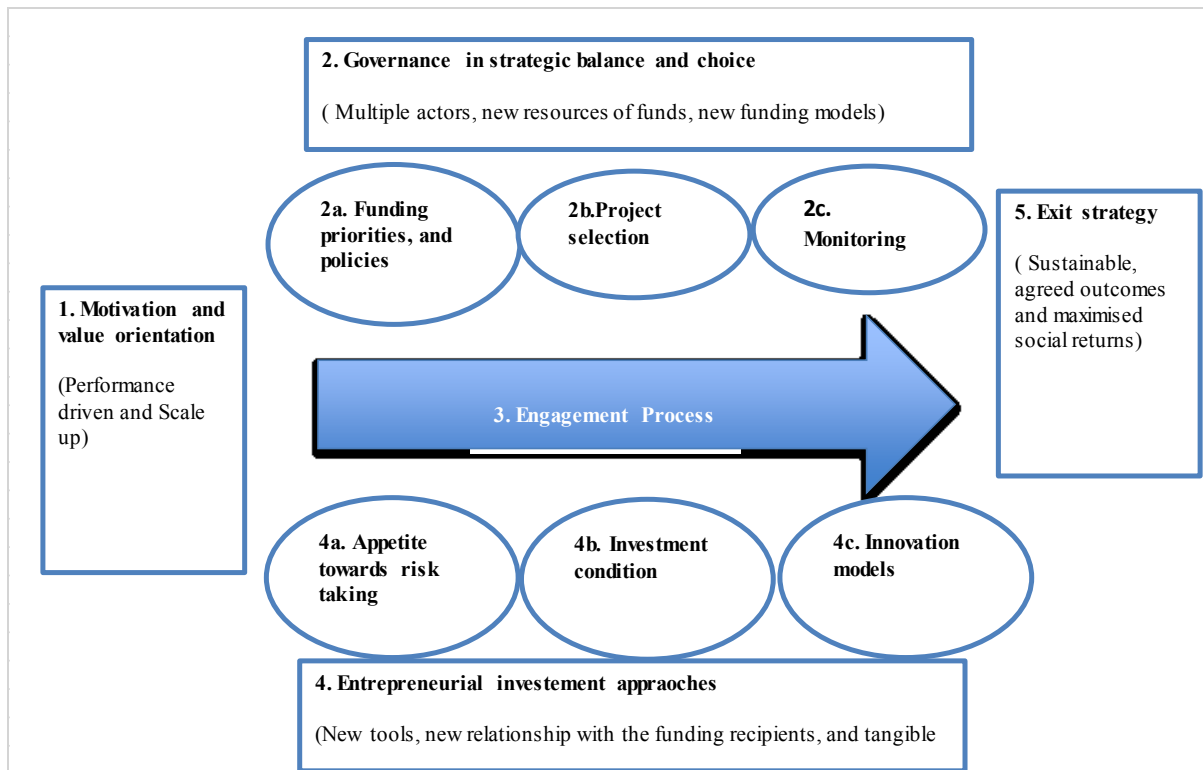
The funders' engagement process is identified as a central focus of study because this allows us to explore the funders' resource channelling role. This resource engagement process refers to what to give, why to give and how to give, seen in the governance rules, conditions, mission statements and defining service constituencies.

In the centre of Diagram 2.1, the engagement process is shown: different funding models might demonstrate different approaches and relationships with funding-recipients according to the underlying goals and motivations of their philanthropy. Focusing on this process would enable the identification of emerging features and patterns from a micro-level. Comparing similarities and differences might identify an empirical pattern indicating core activities and emerging themes. Investigating the practice of the funding strategy might provide some epistemological understanding of the real world in terms of how VP happens. Strategy refers to seeking outcomes and objectives by allocating resources (Saia et al. 2003). As argued by scholars (DiMaggio and Powell 1991; Zucker 1991), examining micro-processes can provide explicit explanation of change in the micro-funder type of organisation (such as funders).

Funders should also consider that the money is distributed to recipients with the purpose of adding value by achieving shared goals. Ultimately, TBs are accountable and responsible for resource distribution. Although scholars (Alter 2007) argue intensively over variables such as structures, ownership and legal status, the discussion here will only focus on the process towards the innovative solutions as in the aforementioned discussion.

Towards the point of exit, performance measures are seemingly an important built-in element for VPs. However, survey feedback (Charity Commission 2008) indicates that the metrics for measuring a funder's success have been self-determined, and challenging. As Lew and Wójcik (2009) argue, performance measures may be subjective and liable to individual interpretation. The new framework proposed in Diagram 2.1 is process-centric (input–transformation–output), portraying variables bearing institutional and contextual factors (Defourny and Nyssen 2010), whose features will be shown by studying motivation, governance and engagement approaches.





**Diagram 2.1 A proposed model of a conceptual framework**

Source: Developed by author

As a funder is perceived as an agent of change, Archer (1996, 2000, 2003) suggests that an agency reflects the capability of cognisant persons to act or to make choices, which may be exercised by individuals, by proxy or collectively (Dassin et al. 2018 ), and also at a macro- and micro-level (Maturana et al. 1987; von Krough et al. 1998). Moving to the right in Diagram 2.1, one sees that new solutions are likely to result in new performance indicators and success factors. Since an enterprising solution to a social problem necessarily includes some innovativeness (even if only an incremental innovation transferred into the target context), as Steinberg (1993, 2006) notes, this will involve stakeholders in negotiating agreed outcomes, some of which may reference a wider social impact. This is especially so where user-value is more important than exchange value to beneficiaries, making quantitative and monetary outputs only part of the performance evaluation. Meanwhile, for qualitative measures, performance-strategy interaction drives the funders engaging in the process of gathering information, contemplating, reflecting, justifying and re-enacting.

## 2.8 Organisational factors in VP adaptation

This section explores the factors that may shape the similarities and differences between different funders. Being different might be an argument from competitive logic to gain market

advantages (Barney 1991; Porter 1991). On the other hand, resource legitimacy may push different organisations towards working in a similar way. This is due to the resource dominant power and resource pursuits typified in funding organisations (Arnove 1980; DiMaggio and Powell 1983; Domhoff 2002; Roelofs 2003; Anheier and Leat 2006; Delfin Jr and Tang 2007). As “resource-rich actors” (Nicholls 2010a), funders seem to be in an extremely advantageous position to drive changes through grant legitimacy. The legitimacy is determined by funding logic, whilst funding goals and motives may themselves drive the logic accordingly. It is also related to the size and time length of the grant (Anheier and Leat 2006). Studies such as that of Mair and Hehenberger (2014) demonstrate that the new model (VP) and the old model (TP) co-exist in the same social arena, creating space and negotiating for change. Gordon (2014) uses comparative studies and discovers collaboration that emerges in the adaptation process, despite similar VC stages being assimilated by VP. Therefore, this section of the study will explore further the micro-aspects influential in the process. The purpose is to configure the empirical patterns from daily practices of the strategy.

Strategy is understood as how governance prioritises the resources and structures for defined funding missions and goals. The literature review of this section includes three aspects. First, it will establish the building blocks to differentiate different funding models in practice. Specifically, theoretical consideration may refer to funders’ governance; entrepreneurial thinking and behaviour at institutional levels; and systems for enforcement. Second, it will investigate the interaction between new actors and factors for isomorphism, as well as to explore the isomorphic forces in the context where funders operate. Third, it will discuss the extended meaning of being different or similar.

### 1. Motivation and value orientation

VP is oriented by contradictory value-sets and motivated by different drivers. Literally, this notion would take philanthropy beyond mere benevolent intent, seeking a social impact through financial investment behaviour. Understanding the motivation and value orientation will provide scholars with a natural base to understand how VP reconciles its conflicted value orientation in dealing with its structure and actors. This also extends insights to understand its governance, how the motivational factors influence the Trustee Board (TB) to shape a policy and make a relevant decision.

## 2. Governance in strategic balance and choices

Despite the fact that funders differ in size, income sources, giving assertions and culture (Leat 2002), fundamentally they are also different with regard to motivation and giving mission, goals and objectives (Mayer and Wilson 2010), typified in their governance model. Given the fundamental resource channelling role of funders, it is perceived that there is a role joining the forces and resources for change through business, state and communities. This implies that governance is required to consider the actors and factors from three arenas, linking to three levels, namely the micro-, meso- and macro-levels.

As far as the micro-level is concerned, a funder as a resource-rich actor differs from service-operating charities. In this sense, the pursuit of the goal is conducted through its service-users via the resources and conditions of the funding invested. Meanwhile the funding rules and conditions are made and agreed between both parties: upwards with donors and downwards with funding-recipients. Therefore, funders seem to play a coordinating role from the supply and demand of resources, although the two sets of actors may be motivated by different reasons. Then, it is also the funders' role to shape the shared interests and set the common ground for the motivation and agreed outcomes.

Mayer and Wilson (2010) argue that considering funding goals alone might not be sufficient, as it is important to understand the "trade-off" points with funding-recipients, and reconcile the motives of donors. Shiller (2012) argues in a case study of school education that although VP intends to use business principles to make changes, a lack of consideration of social needs actually fails its delivery. The lessons learnt are that the adaptation of business principles should be suited to the social context and be appropriate in addressing social challenges. This also indicates that the adaptation cannot be taken from one context to another without careful consideration, thoughtful design and appropriate justification. Therefore, balancing and coordinating the multiple interests, motives, beliefs and expectations from the two sides may likely impact on the delivery.

At a meso-level, governance needs to consider deploying workforces and resources such as expertise, coordination and managing accountabilities (Mayer and Wilson 2010). In practice, this means executing the governance strategy and dealing with the external environment. Employing professionals with know-how and expertise also could contribute to a successful change process. Moreover, a mechanism and system for change should also be considered. At this level, governance is also required to translate individuals' (trustees') interests and voices

into governance choices. Given the self-interest and voluntary aspect of trustees (Ealy 2014a), the governance-choice-making process may inevitably appear to involve subjective, impulsive actions. Strictly speaking, once the money is endowed to a funder, the relationship between the donors and the funders should cease. However, this is not reflected in reality. Donors still want to maintain control, as for example with donor-advised funds (Ostrander 2007; Acs 2013; Ealy 2014b). This has not only added a certain level of complexity towards governance-choice, but also created a situation of there being pressure brought to bear throughout the decision-making process.

At a macro-level, when facing choices, funders as institutions are featured in political, legal and practical influences (Mayer and Wilson 2010). The governance concerns private decisions and choices for public good but enactment through institutional expression (Harrow 2011). Referring to the legal aspect, funders need to comply with government regulations and monitoring and reporting requirements. Tax relief has a likely impact on a funder's resources; thus, government might expect a funder to fill in government spending gaps (McGoey 2014; Jung and Harrow 2015). Harbaugh (1998) has studied giving behaviour and argues that private donations may buy two things: a private warm glow and public prestige. In addition, Khanna and Sandler (1996) have studied UK charities and discovered that the government grant contributes positively to leverage the fund from the crowd. It means government funds are complementary to private giving: an increase of government grant will result in the increase of the private-money donation. Given this effect, to what extent should funders' interaction with government influence governance choices? To a certain degree, it might provide funders legitimacy with symbolic resources, as, for example, if they decide to align with government service priorities or forming a partnership with government. However, there might be controversy over its autonomy and role in enhancing equality but not at the same time being politically driven.

To sum up, Daly (2011) argues that a philanthropic funder plays a role in reshaping the relationship between state policy, the market and communities. Funders' governance faces the challenge constant balancing of contradictory motivations, interests and value orientations among different actors in different spheres. Different approaches adapted from business principles also need to be adjusted and adapted for the social purposes targeted. Meanwhile, funders should bear in mind their independence and priority role in advancing social justice and equality in civil society.

### 3. The engagement process

To ensure the successful enforcement of a change vision, it is vital to put in place a system or a change mechanism (Abel 1995; Helmuth et al. 2005; Brown and Fiester 2007). The literature review comparing VP and TP indicates another distinction between the two, residing in the systematic approach by which VP gathers market intelligence, understanding social needs and the social venture's track record. It is said that VP intends to conduct market analysis through information gathering, understanding the uniqueness of the service and products in the market place and concerning the full development of the organisation, while TP focuses on linear-level information merely regarding the project in its application. On the other hand, VPs are interested in longer-term development, while TPs focus on short-term projects. Therefore, a systematic approach seems to be vital for VP decision-making as providing base information for assessing the nature and level of risk, and capacities for change-making. Inputting the information to the new system, this inevitably may contribute or hinder the adaptation process, depending on what information is required, for what purpose, and also how the system is utilised.

Following this observation, the “new” system apparently requires new methods involving new actors, new information and new thinking. The systematic information captured accordingly may impact on the decision-making process towards who is supposed to receive funds, how much and under what conditions. Arguably, new ideas or solutions might emerge through the new system. The system might require the input of multiple actors. The integration has made the relationship dynamic as well as shifted the system to an information-centric one.

The pattern of using such a systematic mechanism is arguably expected to add towards understanding the evolution of the VP model, enabling factors and generating insights into accountability control from the information gained. Meehan et al. (2001) argue for the importance of putting in place a system for change in order to support continuous improvement and commitment to change. Null (2011) has studied the giving behaviour of 200 donors. The research suggests that there might be some discrepancy in the funding of philanthropy investment between personal value and social value. This is due to the interpretation on funding policy varying with individuals, which tends to be subjective. Thus, studying individual actors' behaviour would aggregate the evidence for understanding collective behaviour. This research does not focus on individual actors' motivations, but rather investigates how the individual motivations are collectively translated to funders at organisational level.

The interpretation of information and diffusion of knowledge come from individual actors in the engagement process of philanthropic giving. The interpretation is driven by their educational and professional background and ethical (value) orientation. This determines the interaction between actors and the system in a dynamic manner and the type of system being placed to capture the information and knowledge.

Grossman (1999) asserts that many different stakeholders from private and public institutions and communities who are involved in VP processes might have spoilt the system and created a chaotic situation. Grossman (1999) further argues that the use of such a system is under-researched as the system provides fundamental information for decision-making and evaluation and communication to the key actors with regard to the events and programme designed. Understanding is needed regarding to what extent such an information system likely contributes to the understanding of the decision-making process. Thus, this research project is going to explore what information is being gathered for what purpose in the funding system for different funders.

#### 4. Entrepreneurial investment approaches

A comparison of VP and TP suggests that fundamental differences lie in entrepreneurial thinking and giving behaviour throughout resource deployment. Following the sequence of the process of input-to-output, motivation and value orientation is regarded as input, as are the means of resource marshalling and governance. Entrepreneurial thinking and behaviour refers to individual entrepreneurs (Schervish et al. 2001; Austin et al. 2006; Nicholls 2010b; Bishop and Green 2015; Maclean et al. 2013) using business principles for optimal resource use in making changes: the shift towards entrepreneurial thinking and behaviour driven by change mind-sets and motivations. A giving rationale is evident in a shift from altruistic, emotional approaches to more rationalised models and conditional models requiring outcome and performance measures. In this shift process, individual (hero-) entrepreneurs (Nicholls 2010a) intend to influence the change process by leveraging resources, shaping the governance and risk-taking for pursuing goals through adaptation of business principles.

However, individual entrepreneurs enact changes through organisations. They are said to be not only motivated for change but also responsible for changes. That is to say, individual entrepreneurs play a crucial role as change agents in the inward–outward and upward–downward relationship when they see the opportunity to exploit opportunities and initiate change (DiMaggio 1988; Lawrence and Suddaby 2006). This emerging phenomenon is seen in

VP, also called “institutional entrepreneurship” by Maguire et al. (2004: 657) and Hardy and Maguire (2008: 198): “activities of actors who have an interest in particular institutional arrangements and who leverage resources to create new institutions or transform existing ones”.

Increasing calls are seen for the need to consider the entrepreneur-change-agent’s role in influencing the shaping of power and interests in VP. This is particularly with regard to shaping the change arrangement at a collective level (Powell and DiMaggio 1991; Greenwood and Hinings 1996; Hardy and Maguire 2008). To translate individual vision and support into practice at an organisational level, hero-entrepreneurs face regulative, normative and cognitive pressures (Hardy and Maguire 2008). To handle those challenges, a change mechanism (process) appears to be crucial for a successful application. Therefore, the funding process is highly regarded in this research, with a view to discovering strategy-in-practice patterns in a changing field. In operation, the developed conceptual framework in Diagram 2.1 can support the investigation of the associated concepts. Meanwhile, it will allow the research to capture the core elements from upward (resource marshalling) and downward (resource distribution through legitimacy) interactions.

## 5. Exit strategy

As demonstrated, understanding exit strategy of VP is beneficial to understand the capacity of being built, established relationships, and timeframe, as identified by Salamon (2014).

### 2.9 New actors, isomorphic change

Comparing VP and TP, another feature indicates that new actors might lead to isomorphic change. Arguably, VP appears to be new venture capitalists or investors entering philanthropy, who might bring new professional standards, new ideas or new money (John 2006; Ball 2008; Moody 2008; Scott 2009). Boxenbaum and Jonsson (2008: 78) argue that organisations in the same field tend to adopt similar approaches for fitting into the operating environment; this is termed “institutional isomorphism”. The isomorphic change is derived from two levels. First, a societal mandate or legitimacy may conform to societal expectations. Second, when facing adaptation directed towards internal efficiency, decoupling occurs, which means that organisations take action to separate from the new structure to preserve organisational efficiency.

Organisations face pressure; such pressures on organisations leading to their increasing their similarities are outlined by DiMaggio and Powell (1983): coercive, mimetic and normative pressures and pragmatic pressure (Suchman 1995; Nicholls 2010a; Bartlett and Devin 2011). Coercive pressure is driven by legal, regulative and political impetus, such as changes to annual account filing requirements. It also comes from resource dependency, for example accountability and performance measures in the case of funders. Mimetic pressure refers to copying peers who have successful cases or are influential in the field. However, this poses uncertainties. Normative pressure is considered to be what has been widely adopted as a common practice or course of action or even a moral duty (Suchman 1995; also seen in Boxenbaum and Jonsson 2008). This is seen more in professional development practice, adopting the similar structures and practices for changes or improvement (Lant and Mezias 1990; Galaskiewicz and Burt 1991; also seen in Boxenbaum and Jonsson 2008). Pragmatic pressure rests on “self-interested calculation” (Suchman 1995; Bartlett and Devin 2011).

A funder as an organisation may face four levels of pressures externally: competitive pressures, regulative pressures, professional pressures and public pressures (Suchman 1995; Deephouse and Suchman 2008). However, Nicholls (2010a: 624) argues that funders, as resource-rich actors, are more likely to be driven by internal pressures such as “mobilis[ing] resources to bring about change” as a distinctive element of internalisation. Funders are highlighted as owning sufficient resources; however, the assumption is made that sufficient resources would create organisational change (Hardy and Maguire 2008) because what matters is related to the ways of using resources and not the resources themselves. As such, different entrepreneurs may exploit different approaches to leverage more resources against actors to harness support (DiMaggio 1998; Hardy and Maguire 2008).

On the other hand, fitting business principles into a non-profit context seems to be a struggle (Frumkin 2003; Saltman 2010; Shiller 2012; Scott 2013). In terms of whether and how to maximise the return on investment, it requires the “hero-entrepreneur” to reflect on the change process (Nicholls 2010b) in the organisational context. Given the contradictory market and social approaches, no universal mechanics or system could achieve anything more than connecting the resources to the purpose of the empowerment for the communities. Thus, a process is crucial for funders, shaping their discourse and rationales for goal-achievement.

As scholars (Meyer and Rowan 1977; DiMaggio and Powell 1983; Boxenbaum and Jonsson 2008) argue, institutional isomorphism is facilitated by processes of diffusion of ideas,



practices and prescribed organisational structures. Little research actually attempts to evidence the processes involving or not involving this isomorphism, particularly in funders. Given the heterogeneity emerging in the environment of VP, this also happens in the field of philanthropy by leveraging various resources from different sectors for social problem-solving (Dees 1998a; Reis and Clohesy 2001; Porter and Kramer 2002; Austin et al. 2006); however, the cross-sector relationship also poses challenges (Babiak and Thibault 2009) due to diverse interests, motivations and behaviours of different actors.

Jackson (2010) argues the importance of studying actors in comparative studies of institutions. Because strategic choice is often associated with a constellation of actors, the rule-making of funders is often linked to the actor-perspective because the rule of adopting or adapting is likely to be associated to actors' identity (professional and social), interests or preferences. For example, donors prefer to donate money to causes related to them and their families, seen in J. K. Rowling's benevolence towards One Parent Families and the Volant Charitable Trust for multiple sclerosis research due to her mother's illness<sup>3</sup>. Different actors may favour developing or shaping their interests, resulting in different interpretation processes.

In the case of VP funders, empirical evidence provides insights into the change process. Maybe driven by resource legitimacy, funders are pushed to adopt or adapt technical changes in order to conform to the "rationalised myths" of what constitutes a funding logic, both for their donors and their recipients. However, little attention has been paid to these two aspects (Scott 1995 and Kuo and Chen 2013). Bartlett and Devin (2011) suggest that an understanding of shift phenomena may be important to understand "why" and "what" to "how" best to adopt strategies and practices. Therefore, this research is established to understand the diffusion trajectory from the old to the new system by answering the "why", "what" and "how" questions.

Aoki (2001) asserts that actors might influence the micro- and macro-level expectations and shaping of organisational beliefs. For example, the subjective expectations of organisations are shaped by individual agents, which shape the strategic choices and reinforce the strategic change. As Moody (2008) argues, the change process is under-researched for VP development

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<sup>3</sup> The Volant Charitable Trust was established by J. K. Rowling. The trust is to support two causes: social deprivation with an emphasis on women's and children's issues; multiple sclerosis.

<https://www.volanttrust.com/>

<http://www.telegraph.co.uk/news/celebritynews/10791375/JK-Rowling-tells-of-her-mothers-battle-with-multiple-sclerosis.html>

because organisations can constrain or enable actors to deliver changes given the available resources and capacities. Strategic responses might be endogenous, while capacities might be exogenous due to different interactions between the actors and mechanisms. However, in the VP concept, it is still widely accepted that market-principles (neoliberal) are “healthy” and that entrepreneurial activities could develop capacities (Dees 1998b; Colyvas and Powell 2006, in Greenwood et al. 2008). Thus, mapping out the similarities and differences amongst different funders (actors) could provide an account of insights leading to an understanding of exogenous and endogenous factors in rule-making and executing rules for changes.

## **2.10 Understanding changes in funding organisations**

No matter whether driven by competitive or altruistic principles internally, being different or similar, funders need to deal with external pressures because their objectives are fulfilled through beneficiaries as subordinate organisations. They do not deliver frontline service but remain as an intermediary. As argued by scholars (Greenwood and Hinings 1996; Deephouse 1999), while in responding to the external pressures, organisations might adopt the same strategy and resources, the adaptation might not lead to isomorphism, due to different capacities, constraints and cultures. Very importantly, an organisation constitutes its related actors, actions and events, under which context both conformity and deviance are determined. Both can exist or be absent in the change process. Accordingly, those contexts may become factors determining the differences and similarities. Goodrick and Salancik (1996) argue that an understanding of everyday processes will, therefore, contribute to the institutional analysis of funders’ isomorphism.

Hence, studying the diffusion process of different VP funders might provide a detailed account in the study of the change trajectory, meanwhile mapping out the change actors, events or actions. In particular, studying the micro-process factor could add an empirical dimension to build bottom-up evidence in understanding philanthropic change theory more explicitly. Various scholars have indicated the shortage of this type of research in understanding micro-funders during different periods (DiMaggio and Powell 1991). In addition, developing an account of micro-level factors will help to explain the macro-level’s effects on emerging events and relationships in the changing paradigm of funders.

A funder is perceived as a change agent, responding to market and social needs and organisational pressure differently. Understanding the differences and similarities might help the decision-making, strategic choices and interplay between strategy and practice. Five

strategic responses are proposed (Oliver 1991; Boxenbaum and Jonsson 2008: 85; Greenwood et al. 2008: 1) conformity; 2) compromise (dealing with structure and actions taken by the organisation); 3) avoidance; 4) defiance (seen in disagreement); and 5) manipulation (relating to entrepreneurship applying directional change deliberately for the organisation). Taking a practice perspective, this research will consider the framework of Oliver (1991) in analysing funders' response to strategic choices and change trajectory while dealing with internal and external pressures.

## **2.11 Conclusions**

This chapter has explored the divergent debates over TP and VP. Focusing on funders' characteristic roles in channelling resources, the conceptual framework is developed based on the resource process, which aims to help answer the questions of why fund, what to fund and how to fund for the various funding models.

This chapter has highlighted the paradigm shift in funding models, exemplified in motivations, engagement processes, expectations, governance and ways of operating and measuring. VP is conceptualised as a change agent, with new actors, new resources, new tools and new intermediaries. Thus, it is the intention of this research to demystify the engagement process of the aforementioned new aspects; to investigate how the motivations, expectations and new interests are interwoven into the goal-achievement or social change; and also to investigate how the governance choices respond to the contradictory value orientations in the service delivery. In addition, factors that might influence the isomorphic changes have been identified and discussed.

Examining the micro-factors in the funding process has helped develop the research focus. The literature review suggests that micro-level data from practice could aggregate into a more comprehensive account explaining the funders' giving behaviour at the macro-level. In addition, identifying the new actors will also be of benefit for the study of the funders' role in the change process. Therefore, the framework should help identify the conceptual significance in addition to guiding the decision-making of funding organisations, whilst dealing with internal and external pressures.

# Chapter Three: Research Methodology

## 3.1 Introduction

This chapter presents the methodological approach adopted in the present research:

First of all, it outlines the research questions. Secondly, it justifies the case-study approach as a research strategy. It also discusses the strengths and weaknesses of the case-study approach. Factors are considered in order to achieve a high standard of comparative and compatible case studies. The philosophical and methodological issues are also discussed. Thirdly, it goes on to present the approaches to case selection and data collection. Multiple sources are utilised for case analysis, including the use of documentation, semi-structured interviews, focus groups, observation of operational meetings and attendance at relevant activities and events associated with the case-study organisations. The data analysis is based on thematic analysis, in part assisted by computer software. Fourthly, the discussion turns to issues of validity, reliability and the research process of iterative justification. Fifthly, ethical issues are discussed and ways to handle them are presented. Finally, there is discussion of the research limitations with regard to the case-study approach adopted in this study.

## 3.2 Research questions

This research concerns the overarching question, “To what extent does the organisational perspective influence funders applying VP approaches in the funding process regarding why they give, how they give and what they give?” The research aims, objectives and sub-questions are designed in accordance with the themes identified in the literature review, as illustrated in Table 3.1.

The researcher uses the “what” question because there is a lack of fundamental knowledge in understanding attributes of the concept of VP. Given the complex social setting, funders (Alexander 1998; Harrow 2010; Maclean et al. 2013) are normally involved with multiple actors (as discussed in the literature review chapter); a qualitative enquiry is, therefore, applied in order to explore the dynamic characteristics of the social settings (Gubrium and Holstein 1997). The “how” question is employed, because in exploring “changed” or “unchanged” paradigms about funders, a systematic approach is required in order to capture change factors that occur in the change process and provide insights on micro-factors distinguishing the “old” and “new” concepts.

**Table 3.1 Research Sub-Questions**

<b>Overarching Research Question:</b> “To what extent does the organisational perspective influence funders applying VP approaches in the funding process regarding why they give, how they give and what they give?”	
<b>Research Aims and Objectives</b>	<b>Research Sub-questions</b>
To discover the convergent and divergent features of different funding models by different funders and investigate the rationale of the four funding <b>policies and governance approaches</b> .	What are the characteristics of funding rationale, goals, objectives and policies used by different funders? What are the characteristics of the funding governance? Who are key actors/what structures are involved in the decision-making process?
To understand the underlying <b>motivation, methods and resources</b> being applied to social problem-solving by different funders.	What are the motivation and value-orientation of each funder? What methods, tools and resources are applied to achieve those goals?
To identify <b>key factors, actors and events</b> (activities) that might impact on funders’ behaving differently or similarly to each other.	What are the similarities and differences amongst the four funders? Why?
To <b>conceptualise</b> the funding distribution processes of the different funders.	What are the characteristics of emerging conceptual blocks of the VP funders in the engagement process?
To draw out <b>an integrated account</b> of new funders in the social arena.	What conclusions may be drawn? What new knowledge on venture philanthropy is represented by the data gathered on why/what/how to give by different funders?

Source: Developed by author

### 3.3 The case study as a research strategy

Research methodology refers to the general approach used by a researcher to handle a research problem (Robson 2002). A methodology defines what approach is adopted to obtain targeted information. Research methodology is determined by research philosophy. This section presents the chosen research philosophy, followed by discussion of the case study as a research strategy.

#### 3.3.1 Research philosophy

Research philosophy deals with three levels of concern (Blaikie 2009): what constitutes acceptable knowledge (epistemology); in what reality knowledge exists (ontology); and reflections of researchers’ value perspective (axiology). The first aspect refers to the development of knowledge and the nature of that knowledge. The second aspect refers to the nature of the reality in which knowledge is situated. The last aspect deals with the philosophical

stance orientated in the researcher's beliefs; consequently, it is influential on how the data are collected. In terms of axiology, a more detailed discussion will be presented regarding research ethics and reflections.

The epistemology aspect of this research is orientated in critical realism (Archer et al. 2013). This view reinforces the value of knowledge existing in a constantly changing world and studies the crucial reasons for changing phenomena. It recognises the significance of multi-level study (individual, group and organisation), each of them with the capacity to change the researcher's understanding of what is being studied. This leads to the selection of the case-study method as a research strategy, which, according to Yin (2009), provides a holistic understanding with in-depth knowledge, situated in a living environment.

This research aims to generate a relevant theory through data emerging from the case studies. However, the weakness of critical realism limits the function of generalisation through a case-study strategy. On the other hand, interpretivists believe that knowledge is socially constructed in contextual settings such as "languages, consciousness and shared meanings" (Klein and Myers 1999; Rowlands 2005: 81). From this position, interpretation is conducted in multiple ways: in accordance with the social roles of the social actors, and through interpretation of social roles according to sets of meaning such as, for example, interpretation from both the researcher's and informants' perspectives. This philosophy allows the study to establish boundaries to minimise constraints caused by the constantly changing world. Therefore, consideration is given to the integration of critical realism and interpretivism. A triangulated philosophical stance is viewed as one way to gain validity and reliability in research based on multiple sources and perspectives.

The rationale for choosing an integrated approach is threefold. Firstly, it can bridge the relevant gaps between theory and practice. It is argued by scholars that knowledge and practice should enhance each other (Van de Ven and Johnson 2006). Pettigrew (1997: 338) further argues that an integrated approach provides dynamic insights rather than static ones, showing "what, why and how" rather than merely "describing, analysing and explaining" "some sequence of individual and collective action". It can allow the focal point to be on "becoming" and "catch[ing] the reality in flight". Relating to philanthropy, there are serious gaps between theory and practice as addressed by various scholars (Davidman et al. 1998; Porter and Kramer 2002; Anheier and Winder 2007; Donmoyer et al. 2012).

Secondly, it allows the contextual factors to be investigated and integrated with the meanings of the social actors. Tadjewski strongly argues in his 2009 article “The politics of the behavioural revolution in organization studies”, using the case of a funder as a demonstration, that contextual significance has been neglected in organisational studies. Various scholars have echoed what he argues: that, in fact, funders are knowledge-intensive organisations. Anheier and Leat (2006) and Lettieri et al. (2004) have demonstrated further that knowledge comes from collective social actors: individuals, groups, communities and organisations. They are interlinked and inter-transferable. Echoing Pettigrew (1997: 340), social interaction comprises the inner and outer context of an organisation, which includes “the economic, social, political, competitive and sectorial environment”. The knowledge in funders may exist in tacit and explicit formats. Triangulation philosophy will help deal with the changing phenomena in a given context by capturing both tacit and explicit knowledge.

Thirdly, the challenge of adopting an interpretative position lies in an empathetic stance. The researcher has prior professional experience in the field from both the funder’s and the grantee’s perspectives. To fully utilise the judgment value and avoid the bias of prior knowledge, consideration, therefore, is given to an integrated approach to triangulate sources, data and analysis.

### 3.3.2 Qualitative approaches

The research highlights the importance of qualitative approaches focusing on the quality of the research objects and processes. Conclusions are not normally measured in numbers, intensity or frequency, as in the quantitative approach (Denzin and Lincoln 2003). Relating to the research questions, this study investigates attributes of different funding processes of funders amongst the various funding mechanisms. Through this process, the study intends to map out the relationships between key social actors. Oriented according to the research philosophy, this research is more interested in dealing with understanding, interpretations, motivations and ideas rather than assessing the effect of the novel approaches. The lens of organisational settings provides a holistic position to link different components of properties and various factors, and key informants such as donors, funding recipient organisations and social-policy makers.

When dealing with human interaction, given the inherent nature of the data collection and analysis process, the quality of the measurement goes far beyond numbers. It is more appropriate to get the value of the collective meanings of the knowledge directly from

engagement with social participants, because they are related to and match up with qualitative methodology (Mason 1996). Traditionally, even in the public domain, the income of the funders becomes the standard measurement, while performance and more endogenous factors tend to be neglected. Therefore, it is important for this research to avoid (in this context) the quantitative approach. Adopting a qualitative strategy does not mean, however, the dismissal of the use of quantitative data to demonstrate the funding/giving pattern at the micro-level.

This research also embraces another value that the qualitative approach emphasises, namely constructed reality. As qualitative researchers view meanings in a situation, it is crucial for them to study the subject in the situation where the social actors are interacting within the environmental setting. In contrast to the quantitative approach, qualitative researchers are not interested in variables, claiming a value-free framework. Rather they focus on relationship patterns and seek social meanings within a context. As discussed in the literature review, Harrow (2010) calls for a multi-dimensional understanding of philanthropy by putting it in a complex social context.

The quantitative approach is based on the assumption of a value-free context. The data are based on hypothesis and interpreted by conducting an inductive approach in a mainstream positivist paradigm. The qualitative approach has a wider discourse to deal with, as it attempts to study the “subject” in real settings which determine the focus of the multiple methods (Flick 1998).

Due to the importance of understanding contextual factors, the qualitative researcher interprets data through an interactional process between him/herself and participants in the data collection process. Qualitative research aims to get closer to the participants’ points of view. Therefore, the strategy deploys a wide range of interconnected interpretive practices in order to gain a better understanding (Manson 2006). The hypotheses of quantitative research are normally based on an existing theory; however, the rapidly changing social world constantly challenges quantitative strategies, because there is a gap in understanding between old theories, new perspectives and new social contexts (Flick 1998; Denzin and Lincoln 2003). For example, an emerging phenomenon in philanthropy is a shift from traditional grant-giving towards loans, contracts and other types of financing, which presents theoretical challenges to researchers seeking to capture new learning and new knowledge (Bull 2008).



### 3.3.3 The abductive approach

Firstly, the abductive approach was chosen for this research as it allows a combination of inductive and deductive approaches. This flexibility suits the three stages of design in comparing different funding models. Based on a pilot study (Case A), an initial framework was established and used as an intermediary theory (proposition) to engage with and reveal insight on the empirical data. It is believed that this approach provides a guided direction towards empirical study with focused effort.

Secondly, the research question aims to answer both the “what” question and the “why” question, and the abductive method provides an appropriate understanding of the dual function of funders. On the other hand, the inductive method can only deal with “what” questions, and deductive and reproductive strategies only deal with “why”. The abductive method allows answers to be given to a combined question, providing holistic insights and matching different stages of exploration of different funding models. Although the abductive strategy does not provide insights but only potential exploratory answers, it does not have any negative impact on this study, but rather fits in well with its exploratory purpose and objectives.

Thirdly, one of the major goals of the study is to generate theory: mutual knowledge and tacit knowledge which can be extracted from the triangulated data and emerging patterns, for example, to make sense of what the respondents know and/or think and how they act. Fundamentally, the intention is to access the subject matter through their perceptions, feelings, thoughts and deeds, by linking their voices with evidence and/or examples of reality. The interpretative values are grounded in engaging multi-level informants and multi-level responses. It is important to recount the data in the respondents’ own voices but also that it be verified by their co-workers. This approach has enabled the research to provide a holistic perspective studying the complex social situations of funding.

Fourthly, the abductive strategy is applied here in a process of changing from lay descriptions of social life to technical descriptions of that social life, rather than accepting the face value of the notion. For example, the abductive method may be used to deal with knowledge refinement and the elaboration process. Constant comparison is applied both within and outwith the four cases. To conclude, the abductive method can combine rich answers generated from a bottom-up approach into an initial propositional framework.

### 3.3.4 Case-study strategy

This research adopts a case-study strategy to answer the “how” and “why” questions, especially where the phenomena being studied are situated in a real-life context and are little controlled by the researcher (Yin 2003). In addition, as Yin (2003) argues, case studies allow the researcher to deal with contextual-level understanding. Yin defines the case study as having technical characteristics that are helpful in studying complicated situations with multiple variables of interest rather than a single data point result.

Deploying a case-study strategy also serves holistic understanding. Given the complexity of novel funding processes applying profit-making practices to philanthropy, using a case-study approach fits relatively well. As discussed in the literature review, the interface between the profit-making and non-profit fields is beset with contradictions. A holistic approach allows the research to capture the location of organisational dilemmas, and to examine contextual conditions and influential factors in both failure and success trajectories. It is not so surprising to see that the majority of research on funders is located in case studies. For example, Van Slyke and Newman (2006) have employed the case-study method to investigate the new venture philanthropists’ engagement with their funded organisations. Similarly, Scaife (2008) used the case-study approach to explore potential engagement by VP in the health service in Australia.

Quantitative data are not a priority in the present research; the focus is more on qualitative data collection with in-depth features. Although the case-study approach provides little scientific basis for generalisation (Dubois and Gadde 2002; Yin 2003), given the novel nature of the phenomenon being studied there is no universally agreed theory that the research could be based on. Therefore, case studies are employed as a strategy to conceptualise the new knowledge and experience for “naturalistic generalisation” (Gomm et al. 2000: 36). It is intended, therefore, to develop a theoretical understanding in a bounded context.

Furthermore, for developing a theory, a collective case study as defined by Stake (2003: 138) is adopted, drawing on several cases on specific issues in order to “redraw a generalisation”. It is the researcher’s belief that the use of such a collective case-study approach may bring out certain patterns and similar/dissimilar characteristics. In such a way, triangulations are positively enabled by selection among cases. This includes multiple sources of data-gathering, the collecting of different voices from different social actors on the same issue, and methods of interpretation (by triangulation).

A comparative strategy has been considered at two levels: intra-case comparison and inter-case comparison. Stake (2003: 148) states that comparison is considered a powerful tool for conceptualisation as it allows for “fixing attention upon one or a few attributes”. In the case of this research, due to the diversified attributes and complicated nature of the novel situation, the case studies take the framework developed from the literature review as the central focal point. In order to understand the novel funding models, the case studies represent the different types of funding models. The factors for comparison are developed from input (motivation, funding mechanism), through process (engagement, interaction) to outcome (expected outcomes, performance measurement and exit strategies), presenting a holistic picture to capture “thick descriptions” with details from their locality.

In addition, the conceptual structure will act as an intermediary to facilitate knowledge gained between the researchers (consciously) and participants (unconsciously). Stake (2003) points out that Robinson (1951) has suggested that conceptual structure is beneficial for pattern identification or aggregated themes and relationships (meanings and associations), which will set a basis for development of a theory.

In this process, Stake (2003) argues that generalisation may involve unconscious processes for both researcher and participants as the evidence is constantly being discussed. Therefore, the case study is considered in this research as an approach intended to maximise the generation of knowledge.

#### Unit of analysis

The unit of analysis of this research is the individual organisation and its funding model. The knowledge is aggregated from the informants, events and activities associated with the four funders in the research.

The case studies in this research are grounded in four types of funding giving modes, namely: grant-giving but applying business techniques; venture philanthropy grant-giving; mixed grant-giving and business loan; and business loan. The funders are all located in one country and have specific purposes. The literature review showed a lack of research on regions, with excessive focus at the international level, primarily concerning international development, for example, on the African continent (Shaw et al. 2010), and especially on large funders (Schneider 1999). The four funders operate independently, without donor control, which means

that none of the donors sits on the board of trustees. This represents relative “autonomy” in governance in the four cases.

The main criteria for sample selection are based on the funding model, as funding mode is the core study unit. Extreme cases are also brought in for comparative study, and the (originally) traditional case was utilised as a benchmark at the pilot stage for a better understanding of VP. Coincidentally, all four cases are unique in Scotland.

### 3.3.5 Research design

As defined by Blaikie (2009: 12), research design is a “technical document” which aims to make explicit decisions, justify the reasons why, ensure consistency and allow for critical evaluation. To ensure the quality of the design, thinking is engaged both vertically and horizontally. Vertically, the researcher has adopted the five steps recommended by Richards and Morse (2007) discussed below. Horizontally, the research is structured in three stages of comparison in an iterative process: data collection, data presentation and data analysis.

Data are presented in a descriptive format initially, along with the profiles and narratives of the case organisations. Data analysis starts with each individual case based on thematic and grounded theoretical analysis, followed by cross-case comparison relating to the literature review.

#### 1) Establishing the research purpose

The purpose of this research is to contribute to knowledge with regard to the meaning of different venture philanthropy models through an exploratory study. Because the exploratory research deals with “what” questions, the researcher aims to explore new insights into the concept of venture philanthropy and the emerging characteristics of venture philanthropy in the field. The research is based on a qualitative approach, and aims to generate a conceptual framework.

#### 2) Methodological location

In order to answer the overarching question concerning the meaning of VP, the following table is adopted. This is to ensure that data sources, data types and methods of gathering data are suitable for analysis.

**Table 3.2 Methodological location**

Type of Question	Chosen Method	Data Source and Types	Analysis Techniques
Questions about meaning	Phenomenology	Audio-recorded, in-depth conversations, phenomenological literature	Theming, phenomenological reflection, memos, reflective writing

Source: Adapted from Richards and Morse (2007: 32–34)

### 3) Scoping

The field research lasted from 2010 to 2014. To generate relevant theory, a collective case-study approach was adopted. Regionally, the chosen social context was Scotland. Initially, a venture philanthropy grant-giving model was identified which fell into the category of an extreme case of grant-giving as opposed to loan finance.

The data selection employed convenience sampling, snowball sampling and theoretical sampling. Due to the professional connection and developed access, convenience sampling was applied to identify a VP organisation at the outset of the project. A gatekeeper was identified for initial access, following Gordon's (2014) research on entrepreneurial philanthropy, which widened and speeded up the access process.

Stakeholders and individual informants were selected and approached at two levels: by the researcher studying archived documents and through referral[s] made by the case organisation.

**Table 3.3 Funder Criteria Justification**

Criteria	Sources of Justification	Justification of Selection
Location	Schneider (1996)	Scotland, due to accessibility, a tendency of local contribution being made by funders; lack of sufficient research on regional area but excessive focus on international funders
Organisation	Anheier and Leat (2002)	Registered as a charity in Scotland
Funding Engagement full process	Van Slyke and Newman (2006); Anheier and Stoepler (1999)	Lack of systematic data for developed understanding on funders, current knowledge being one-sided
Four Models	Virgau, Farley and Jensen (2010); Schervish (2003); Grossman (1999)	Four models on the scale of spectrum of grant and loan; polarised arguments from the extreme of two schools, left-wing conservative and neoliberalism (market approaches)

Source: Developed by author

### 4) Data sources

Data collection methods applied include multiple sources, interviews, observations, content analysis of documents, and focus groups. Observations include those made where organisations

conduct regular/routine operational meetings and at decision-making panels on applicant selection.

## 5) Thinking ahead

Risk was assessed as minimum for the following reasons:

- (1) The case organisations' leaders were very trusting and welcoming towards this research. As learning organisations, the four cases embrace a learning ethos;
- (2) Due to ongoing change in the four organisations, cautious and sensitive approaches were applied. Communications for access went through/along different cycles/channels due to different introductory relationships with the case organisations;
- (3) Entrepreneurial "gatekeepers" were approached to broker the connections, which proved to be an effective access approach.

One risk identified was that the respondents chosen were located in different parts of Scotland. To save cost and time, a telephone interview approach was employed for respondents in the Highlands as an alternative means of data collection. Informants ranged from strategic to operational positions, for example, trustees, Chief Executive Officer(s) (CEOs), senior and junior funding officers and advisors, as well as donors and resource providers.

At a peripheral level, experts on third-sector funding were approached, such as CEOs of the key grant-holders, CEOs of funding providers, private equity investors, venture capital investment managers, think-tank advisors, start-up social entrepreneurs and consultants in social investment.

### 3.3.6 Data collection

This case study is oriented within qualitative data collection methods. As Blaikie (2009: 159) points out, a "case study can play a major role in theory development". As a student low-budget research, case studies were more suitable for a sole researcher project with limited resources. In order to answer the research questions and obtain maximum knowledge, multiple sources of evidence were used. The sources of evidence include documentation, archival records, open-ended interviews, direct observations and participant-observation, and physical artefacts.

As this was research for a doctoral degree project, the period of data-collection was from September 2012 to December 2014, excluding partial data collecting for the pilot study, which took place between June and August 2011.

Data were collected using qualitative methods. Six sources of evidence were adopted in the data-collection process. Yin (2003) summarised the strengths and weaknesses of different sources, as shown in Table 3.4. Snowball approaches are used for data access, for example, through “gatekeepers” and attending events and activities relating to the subject area in Scotland, the rest of the UK and Europe.

**Table 3.4 Six Sources of Evidence: Strengths and Weaknesses**

Source of Evidence	Strengths	Weaknesses
<b>Documentation</b>	Stable – can be reviewed repeatedly and unobtrusively – not created as a result of the case study Exact – contains exact names, references, and details of an event Broad coverage – long span of time, many events, and many settings	Irretrievability can be high Biased selectively, if collection is incomplete  Reporting bias – reflects (unknown) bias of author Access – may be deliberately blocked
<b>Archival records</b>	As above for documentation Precise and quantitative	As above for documentation Incomplete accessibility for reasons of privacy
<b>Interviews</b>	Targeted – focuses directly on case study topic Insightful – provides causal inferences	Bias due to poorly constructed question Response bias, Inaccuracies due to poor recall Reflectivity – interviewee gives opinions and feelings to the interview on the topic
<b>Direct observations</b>	Reality – covers events in real time, Contextual – covers context of event	Cost – time and money for real-time human observation Selectivity – unless broad coverage Reflectivity – event may proceed differently because it is being observed
<b>Participant-observation</b>	As above for direct observations Insightful – into interpersonal behaviour and motives	As above for direct observations Insightful – into interpersonal behaviour and motives
<b>Physical artefacts</b>	Insightful – into cultural features, Insightful – into technical operations	Selectivity Incomplete availability

Source: Developed by author (adapted from Yin 2003: 86)

At the second stage, based on the secondary resources pertaining to each organisational funder’s funding list, the grantee organisations were approached by manual research through public domain contacts. Alternative approaches were adopted, through umbrella organisations such as Senscot<sup>4</sup> and the Association of Chief Officers of Scottish Voluntary Organisations (ACOSVO). At a third level, in order to understand contextual factors, diverse experts were

<sup>4</sup> Senscot is a network organisation connecting social enterprises in Scotland.

accessed: varying among Scottish Government policy-makers, a policy-makers' think-tank, third-sector consultants, private equity investors, high-net-worth philanthropists, peer organisational funding leaders, social innovation awardees, social impact bond protagonists and certain third-sector leaders (chief officers or fundraising officers), who were interviewed informally on various occasions.

### 3.3.7 Data analysis

A triangulated approach was taken for data analysis in order to maximise the data value in a rigorous process illustrated in Table 3.5.

**Table 3.5 Analysis Process Table**

<b>Abductive and Inductive</b>	<b>Function</b>	<b>Justification (sources)</b>
Thematic Analysis	Provide indication for a direction	Frame patterns in natures and attributes
Intra-case display	Exploring and describing	Identification of patterns within the case
Inter-case display	Ordering and explaining	Identification of patterns among the cases

Source: Developed by author

Based on the initial framework of the research, a thematic analysis was used to identify characteristics of each theme. Answers were sought based on the questions being asked. Under this approach, the data were transcribed manually line by line, assisted by Digital Voice Editor 3. The entire transcript was stored in the computer as a Word document and NVivo 10 system used to store and sort the data for analysis. Tabulation was used to demonstrate emerging themes with evidence and informants.

### Thematic analysis

The data analysis process was divided into four stages: line-by-line manual coding; thematic analysis to capture the key themes according to the initial conceptual framework; the use of thematic analysis to draw up new emerging themes not within the initial framework; and theme collaborations. Theme collaboration will be developed from comparing both within and outwith case organisation. The conceptual model was generated in each case location and from the overall landscape.

#### 1) Coding

In order to familiarise herself with the data, the researcher adopted a multiple approach. Interactive approaches were applied many times in reading transcripts and coding the data for



understanding within the context. After the basic familiarisation, the researcher coded the data line by line manually so that the data could be grouped into each individual theme. Line-by-line coding provided close insights into the data being studied (Glaser 1978). Charmaz (2006: 50) has pointed out that line-by-line coding “works particularly well with detailed data about fundamental empirical problems or processes”. Given the complicated topic, line-by-line coding was considered suitable for this exploratory research, according to Charmaz’s (2006: 51) suggestion that strategies be used to make sure “the data speaks to the research topic”.

After the initial open coding, the researcher moved on to “focused coding”. Glaser (1978: 61) has defined this as follows: “focused coding means using the most significant and/or frequent earlier codes to sift through large amounts of data” and the codes “are more directed, selective and conceptual than word-by-word, line-by-line and incident-by-incident coding” (see also Thornberg and Charmaz 2014 and Charmaz 2006: 57). The focused coding enabled the research to move away from a linear process, but focus more on answering the questions, through a comparative and iterative process.

## 2) Documentary data

Documentary data were drawn from various sources, including:

- Organisational reports such as annual accounts (Source: Office of Scottish Charity Regulator online)
- Independent evaluation reports in the public domain
- Online information (mission, vision, updates, news, case studies, research) in the public domain
- Meeting minutes and archived documents (provided by case organisation)
- Information on online news channels relating to the case organisations
- Publications from umbrella organisations such as the EVPA

## 3) Memo-writing

Memo-writing keeps one focused on the research data and analysis (Denzin 2003) as demonstrated in Table 3.6. It is about “capturing ideas in process and progress” (Charmaz and Belgrave 2007: 166). Charmaz (2006:72) also views memo-writing as the “pivotal intermediate step between data collection and writing drafts of papers”.

Cuthbert et al. (2017) affirm the importance of memo writing in creating an upward spiral. The memo-writing is used to integrate further in the analysis process as well as to “note gaps in the data and conjectures about it” (Charmaz and Belgrave 2007: 166).

**Table 3.6 Sample of Memo-writing**

Contact Type: Face to face interview [ Interview Code: P05]	
1. What were the main issues or themes that struck you in this activity?	
A) Traditional philanthropy is more superficial, while VP appeared to be more deeply engaged – does less but intends to do better. B) VC model has been applied throughout the process. The challenge for VP is to make the wide spectrum EVPA model into a manageable methodology. C) Driven by recipient organisation but with funder focus on the recipient organisation. D) Philosophy of Case A: three-legged model of private, public and third sectors.	
2. Summarise the information you got (or failed to get) on each of the target questions	
Question	Information
Emerging Characteristics	a) Robust measurement, (Social impact metrics), automatic stepping stone – monetisation
	b) Early intervention prevention money (metric) long term
	c) Access new philanthropic money – social impact
	d) Social finance
	e) Financial return, contribution to the government
Process	Focused engagement on capacity development
Unique Attributes	a) Mixed grant + VC
	b) Joining dots together, community-centred models
Differences	a) Trusted relationship b) time and engagement c) performance advisors input d) finding a new way to get new money e) outcome- and social impact-driven
Innovation	The business model itself
3. Anything else that struck you as salient, interesting, illuminating or important in this contact?	
A) Social Impact Bond and its implication <i>vis-à-vis</i> the government pay-out rate (bond issued normally asking for xxx% financial return). It also has strong implications for how to maximise giving from middle-class donors. B) Sustainability/continuation for the VP funding organisation.	
4. What new (or remaining) target questions do you have in considering the next contact? A) Asking for examples, B) Open up the questions, follow the flow, then steer the questions.	

Source: Developed by author

### Research activity – interviewing and sampling

Interviewing was planned ahead through four stages. Access and confidentiality were agreed at the outset of the project. A confidentiality agreement was signed with each case organisation. In the planning process, the interview was divided into three stages: document review and

purposeful sampling, face-to-face interviews and telephone interviews. The interview was the main method of inquiry adopted. One-to-one interviews varied from 60 minutes to 120 minutes. Due to time and geographic constraints, six interviews were conducted by telephone. Telephone interviews lasted normally from 30 to 60 minutes. Focus groups were also utilised for group interviews. Observation of panel decision-making and board meetings was also employed.

**Table 3.7 Outline of the Informants and Data Sources**

Respondents (informants)	Case A (VP grant)	Case B (VP grant)	Case C (VP mixed grant and loan)	Case D (VP loan)
Board of directors/trustees	2	4	2	1
CEOs	1	N.A.	N.A.	1
Senior (strategic) management	4	N.A.	1	2
Operational management	6	2	1	1*
Leaders of applicant organisations (funding recipients)	9****	3	2**	9****
Donors/philanthropists/advisors	2	N.A. = original donor deceased	3	2
Focus group interviews	3 (1 x 6pp, 2 x 3pp)	N.A	N.A	1(6pp)
Observations at internal meeting and decision panel	1	N.A	1	N.A.
<b>Total Interviews</b>	25 + 3 focus groups	9	10	16 + 1 focus group
Think-tank advisors, consultants, policy-makers, investors	8***			
Relevant conferences attended (UK and Europe)	6			
Occasions/events related to the case organisation	2	N.A.	1	2
Total informants	76 + 4 focus groups + 2 observations + 10 events			
*= including all operational members (6 members of staff. **= including leaders of both successful and unsuccessful applicant organisations. ***= private investors x 3, social enterprise think-tank x 1, peer foundation leader x 1, social banking development manager x 1, social innovation awardee x 1, investment consortium CEO x 1 ****= 2 organisations overlapped. N.A = 0				

Source: Developed by author

At the interview planning stage, the key questions and key people were identified. A semi-structured interview questionnaire was drafted and circulated before the interview. In the draft questions, the priority questions were identified, and opening questions and closing questions were the same, asking interviewees to introduce their background/role in the organisation and to make three statements to summarise their understanding of their own approach. However, to keep the conversation flowing, the order of interview questions was modified for

clarification while carrying out the interviews in order to capture the best possible data and steer the conversation in the right direction within the limited time. The natural flow of the conversation changed the sequence of the questions.

The data were gathered from multiple sources, illustrated in Table 3.7. In total, more than seventy-six people were interviewed, in addition to interviews with four focus groups, two observations and two events hosted by two organisations. To ensure that the data sufficiently reflect both internal and external insights the informants represented different levels in the actors' organisations: for example, trustees, CEOs, strategic and operational level staff members, leaders of applicant organisations, donors/philanthropists/funders/advisors, think-tank advisors and investors.

### **3.4 Quality control – validity and credibility**

#### **1) Issues of accountability**

It is a feature shared by most sciences that a value-neutral approach is problematic (Ragin and Amoroso 2011). Research accountability depends partly on the researcher's view of the data both as an "insider-out" and an "outsider-in" (see Section 3.5.1 below). Attributes contributing to understanding of the complexity of field may also pose the danger of imposing prior knowledge onto a fresh case. The researcher should bear in mind the need to detach him/herself from prior knowledge, to try to avoid biased views and allow data to speak for themselves. To minimise this potential negative impact in the analysis process, the research was designed to triangulate understanding and interpretations gained from informants and expert groups. Seale (1999) argues the importance of methodological awareness. It involves a commitment to and effort towards presenting the reader with sound research procedures, unbiased evidence and rational conclusions, which should be open to revision in the light of potential new evidence. One of the challenges in studying philanthropy is the multiple dimensions involved, as discussed in the literature review chapter. Both "political perspectives" and "multiple voices" (Seale 1999: 9–17) are fundamental features in philanthropy. Thus, in this research, government officers were included as interview informants. These techniques were used specifically to incorporate validation through "member checks" (Lincoln and Guba 1985: 314; Seale 1999: 468). The same technique was also applied to the investors by considerations "closer to practice", in order to understand their perceptions, motivations and behaviour in philanthropic giving through an investment mode. The validity is, thus, not bound up with the truth from the voices of individual informants but rather is considered as part of a solution

involving multiple actors situated in the case phenomena. Following Yin (2015), the tactics applied to this research are as outlined in Table 3.8.

## 2) Constructing internal validity

Internal validity concerns “the extent to which causal propositions are supported in a study of a particular setting” (Seale 1999: 38): in the present research, the selection of four funders represents the spectrum of funding modes. The differences across the spectrum are revealed in the data arising both in the subjective views of actors and in objective happenings in reality, such as “what” determines the actors’ behaviour in a specific setting, as well as “why” and “how”. However, the “why” question is rarely addressed explicitly in the patterns observed (Silverman 2000; Gubrium and Holstein 1997; Seale 1999). Revealing hidden assumptions has been adopted as one of the techniques for validating the data.

**Table 3.8 Case-study Tactics for Four Design Tests**

<b>Control Test</b>	<b>Definition</b>	<b>Case-study Tactic</b>	<b>Phase of Research in which Tactic Occurs</b>
<b>Constructing validity</b>	Identifying correct operational measures for the concepts being studied	<ul style="list-style-type: none"> <li>✓ Use multiple sources of evidence</li> <li>✓ Establish chain of evidence</li> <li>✓ Have key informants review draft case-study report</li> </ul>	Data collection; Composition (indications, observation, comparison, writing, case presentation – cross-case analysis and results)
<b>Internal validity</b>	Seeking to establish causal relationships, whereby certain conditions are believed to lead to other conditions, as distinguished from spurious relationships	<ul style="list-style-type: none"> <li>✓ Do pattern matching</li> <li>✓ Do explanation building Address rival explanations</li> <li>✓ Use logic models</li> </ul>	Data analysis
<b>External validity</b>	Defining the domain to which a study’s findings can be generalised	<ul style="list-style-type: none"> <li>✓ Use theory in single-case studies</li> <li>✓ Use replication logic in multiple-case studies</li> </ul>	Research design
<b>Reliability</b>	Demonstrating that the operations of the study – such as the data-collection procedures –can be repeated with the same results	<ul style="list-style-type: none"> <li>✓ Use case-study protocol</li> <li>✓ Develop case-study database</li> </ul>	Data collection and data analysis

Source: Yin (2014: 45–46)

Internally, in practice data were validated at three levels. First, with each individual informant comparisons were constantly conducted throughout the interview transcription in order to rule out irrelevant values. Secondly, validation was sought through actual examples solicited to verify informants' claims at interview. Basically, this was to check whether they do what they say they do: what was said was verified against actions or activities. Thirdly, validation was sought via different informants in the same case organisation. This was to rule out or identify any contradictory values or claims.

### 3) Constructing external validity

External validity concerns “the extent to which causal propositions are likely to hold true in other settings, an aspect of the generalizability of findings” (Seale 1999: 40). Starting from the research design, the choice of an extreme case was made as one way to validate the findings. The selection of the other cases based on different VP funding modes was also done as a means of moderating the findings.

Externally, to search for contradictions data were validated at three levels: firstly, expertise and actors in the field but not directly linked to (participating in) the case organisations. Actors working in the same field were drawn in for additional data to enhance understanding of emerging aspects/trends in the field of philanthropy. The actors included social innovation awardees and experts, chief executives of non-profit organisations, private equity investors, policy-makers (government), think-tank members (policy advisors) and social impact bond protagonists and peer funding bodies' chief officers. Secondly, voices from both funders and their recipients were collected in order to help validate the reliability of the data. Thirdly, the researcher presented the data and discussed these with her academic supervisor on an ongoing basis. Meanwhile, attending academic conferences globally provided another opportunity to validate interpretation of the data. In addition, the researcher also attended many debates, conferences and other information dissemination events in Scotland, in order to develop her understanding of the field.

As argued by Seale (1999) and Seale et al. (2004), considering the validity and reliability of data is not enough: quality control should also be highly regarded. Various techniques were applied in this research: for example, “member validation”, “triangulation” and “analytic induction” were utilised to understand negative or contradictory findings.

Three important challenges were identified in the process of generalisation of the study. Firstly, given the nature of philanthropy, it was felt that external validation is difficult to achieve because the different features of each individual entrepreneur gave each case different characteristics, despite the similarities that emerged among the four cases. Secondly, immersing oneself in the “thick transcription (description)” (Brown and Harris 1978; Geertz 1988; Seale 1999) can be a rather personal experience, dependent on the researcher’s prior experience, education, and belief and value orientations. Thus, the narrative interpretation (report) may vary with different researchers. Thirdly, “making sense” of the reading of the research narratives is up to readers: once the writing is complete, a new relationship emerges between the text and its readers.

Additionally, it is in the nature of philanthropy that it cuts across the three sectors, as discussed in the literature review chapter. Rooting the study in one theoretical domain is therefore exceptionally challenging. Although informed by the researcher’s previous experience as a funding officer and fundraiser, in addition to the pilot research, the research process was hard to control because the actors involved in philanthropy are situated in an open system with a mass audience. To handle these difficulties, reflection was utilised throughout the ongoing interactive process.

### **3. 5 Research ethics**

Denzin and Lincoln (2000: 138–140) suggest that four things might be considered as a code of ethics for professionals and academics: “informed consent”, “[absence] of active deception”, “privacy and confidentiality” and “accuracy”. In practice, informed consent means that commitment to individual autonomy is applied consistently. All the participants and the “subjects” being studied must agree voluntarily, the agreement being sought and agreed based on open information without any hidden agenda. The present research was conducted with a respectful and discreet approach towards information disclosure. This was to ensure that knowledge was gained through an appropriate process. Individuals’ privacy and identity are safeguarded to prevent any information being re-allocated, misused or subjected to unwanted exposure. No personal data are revealed to the public.

Although a confidentiality agreement was signed between the researcher and the case organisations, consideration was also given to avoiding the identification of insiders. Therefore, job titles are not revealed, only strategic or operational levels. In this way, when multiple actors at both levels are involved, individual actors’ identities are protected.

The research strictly complies with the research code of conduct produced by the University of Edinburgh and Economic and Social Research Council guidelines. An individual organisation confidentiality agreement was sought and signed before the research. Not every organisation gave permission to reveal its name. The decision was, therefore, made that all cases remain anonymous.

Each participant was informed about the use and purpose of the research. Their consent was sought at interview rather than via a consent form. This was to create a relaxing environment for gaining knowledge as well as to build up conversation with informants to reflect true voices. Meanwhile, the confidential protocol from each organisation was also highly protected. No commercially sensitive material was allowed to be distributed and disseminated. The whole set of data is stored in a secured computer in the University of Edinburgh Business School system and will be destroyed at a certain time after the completion of the research. It is argued by Ragin and Amoroso (2011: 79) that ethical concerns “generally conform to those held by individuals within society”. Therefore, on each occasion, personal agreement was sought before email communication or telephone calls. A second point of consent was provided at the start of interviews. This was to actualise the principle that the informants had the right to cancel the interview or stop at any time they did not feel comfortable. This happened with one informant during a telephone interview: the informant changed their mind about revealing their past funding experience.

Regarding ethics, it is interesting to note that the researcher was met warmly by the informants, who showed willingness to share knowledge. This was influenced by the fact that some of the informants assumed from the researcher’s country of origin that she had travelled all the way from China specifically for this research. This may show human curiosity or Scottish hospitality. On the other hand, it may reveal socio-cultural attributes of communities rooted in a country, which may shape common respect and mutual understanding for likely intended collective action.

### **3.6 Further reflections on the research methodology**

This section discusses certain core methodological elements adopted throughout the research process. In particular, there is discussion of the dichotomy between two roles inevitably played simultaneously by the researcher, namely “outsider-in” and “insider-out”. This is followed by critical reflection on the use of thematic analysis in the case studies. Finally, limitations of the research and further research are discussed.



### 3.6.1 Dichotomy of role: “outsider” and “insider”

As discussed earlier, the extent of data access is a function of any researcher’s network, prior professional connections, and continuous engagement with entrepreneurs and investors. All these are “gatekeepers” of the entrepreneurship field that is being researched. The researcher must recognise the complexity, boundaries, compatibility, advantages and disadvantages of the different roles involved. The researcher’s role as “outsider-in” here refers to experiential involvement with the researcher observing in the investment panel meetings without “prior analytical categories”. The “insider-out” role refers to the “detachment” of the researcher from the research objects and particular situations under study. These different roles may be driven by different values, assumptions and beliefs, which fundamentally shape and constitute the researcher’s validation of the knowledge (Evered and Louis 1981). Therefore, it is critical to balance the dual role in the research process to avoid bias and strive to “conform to standards of intellectual rigour” (Brannick and Coghlan 2007: 60).

Arguably, in addition to being driven by a strong “desire” to understand the social scenario more actively, the advantage of being an “insider” might enhance comprehension of contextual factors and relationships in specific social situations, based on previously gained insights, for example contributing to the depth and width of engagement with the informants. This may ensure that the knowledge gained is not scattered but will remain within the context and be understood systematically (Alvesson 2003). It might also mean increased access to data, or a better-developed empathy and rapport with informants.

Accordingly, this could contribute to increased openness and enhanced practice-based sharing by the informants of experience, issues and pitfalls, for example giving access to secondary levels of information such as data, minutes of meetings, confidential reports and documents.

However, the “personal stake and substantive emotional investment” (Brannick and Coghlan 2007: 60) of the “insider” might equally also be a disadvantage (Evered and Louis 1981; Anderson et al. 1994; Anderson and Herr 1999). Negative aspects might include knowledge gained being too subjective. Unspoken acceptance “as a peer” (e.g. through body language) might impose pressure on the researcher to “conform” rather than take a critical view, despite efforts to maintain a value-free, neutral stance and full critical engagement.

As to being an “outsider”, from an academic researcher’s perspective, the first requirement is critical engagement in the social setting. The researcher needs to speculate on the research

objects, providing in-depth analysis and “critical discussion”, with an obligation to demonstrate not only new knowledge or understanding but also how that knowledge or understanding is being shaped.

Being aware of the assumptions, values and functions of the two roles, the researcher acknowledges through a holistic reflective circle that the two roles alternate at different stages of the research as different modes of inquiry. Following Evered and Louis (1981), the two modes and their features can be displayed as in Table 3.9 below.

The researcher faced ongoing challenges in the process of data gathering and dealing with complexities, specifically acting in multiple roles, including, as illustrated in the above table, those of organisational actor, participant observer, unobtrusive observer, empiricist, data analyst, and rationalistic model-builder. This proved easier said than done: deep and lengthy reflection was required. First, strong awareness of the different roles was put in place: for example, the researcher adopted various techniques, including “mindfulness”, to practise dealing with role change/alternation and to avoid jumping to conclusions before themes or knowledge emerged as they really were.

**Table 3.9 Alternating Modes of Inquiry**

Mode	Primary Purpose of Knowledge-yielding Activity		Role of Researcher
	Organisational Action	Organisational Inquiry	
From the Inside	Coping	Situational learning	Organisational actor
	Action taking	Action research	Participant observer
	Managing	Clinical practice	Unobtrusive observer
	Surviving	Case research	
From the Outside	Organisational design and engineering	Traditional positivistic science	Empiricist
	Controlled experimentation		Data analyst
	Social technology		Rationalistic model builder

Source: Adapted from Evered and Louis (1981: 388)

Secondly, deliberate use of space and time appears to have been useful: separating intervals of analysis among the different roles; constantly asking comparative questions; making sense of the data gathered in its related context, separating the researcher's prior knowledge from the case studies; and linking back to the literature. Continually questioning the relevance of the data/evidence and linking it to the research questions further supported these efforts.

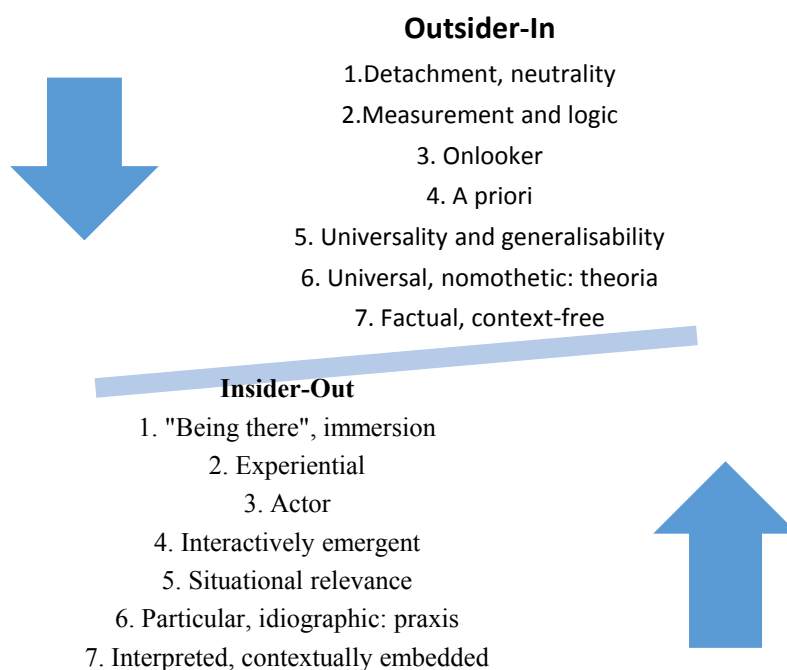
Thirdly, in adjusting among the different roles and dealing with the accompanying value conflicts, the researcher strove to grasp "tacit knowledge", again through deep reflection and multiple levels of engagement with key actors and informants. Tacit knowledge learning theory was applied and practised throughout the process (Nonaka and Takeuchi 1995). In the research process, the researcher had the feeling of being on a perpetual seesaw (as seen in Diagram 3.1): constantly having to adjust her balance to deal with uncertainty and "unknowns". In addition, the researcher faced risk-taking to explore ambiguous areas with a view to digging out more clarity, constantly adopting different roles and adapting to different situations, balancing "immersion" and "detachment", and trying to make sense of emerging patterns and arrive at new understanding.

On the other hand, critical realism was adopted, as an approach embedded in liberated self-reflectivity. Through this epistemic reflective process, new knowledge was realised, discovered and validated (Johnson and Duberley 2000; Brannick and Coghlan 2007). Whereas positivism implies a knowledge generalisation process, critical realism seeks "particular knowledge". The critical realist researcher is required to be active, engaging closely with the data. However, critical realism also requires a constant and ongoing balanced and detached stance, providing critical views in order to validate the knowledge emerging from the discoveries made.

The reflective process focuses on the epistemological stance of critical realism with regard to analysis and challenging meta-assumptions. It involves not only deep engagement with and lengthy monitoring of research behaviour but is also segmented at different stages and at different times and places towards different data. Specifically, time and space (Dwyer and Buckle 2009) are used to clear the cluttered mind and the massive jungle of the quantities of evidence, avoiding being "too close to the data" and providing objective views. Also, it is an iterative process, to shape intellectual rigour and avoid over-claiming, under-claiming or inappropriate claims.

The researcher's experience suggests that the "insider-out"/"outsider-in" dichotomy can be extremely challenging. It requires mindful integration, collaboration and separation

throughout an entire process which demands alternation between the roles of investigator and professional at different given points in time and space. In this process, it is vital to understand the boundaries, different requirements, values and assumptions of the different roles. Taking the two roles in tandem, bearing in mind the great importance and complexity of the ongoing process and taking a neutral stance, the process may inevitably become more fluid and less planned and controlled. Dealing with uncertainty requires (constant/repeated) mental and methodological shift[s] in dealing with changing role perspectives. Although this constant change is a very uncomfortable process, it appears to have been a highly valuable experience for the researcher in shaping the methods of knowledge inquiry and acquisition for this study. This recalls a sentiment attributed to Heraclitus in Plato's *Cratylus*, which may be paraphrased: "no man ever steps in the same river twice, for it's not the same river and he's not the same man"<sup>5</sup>.



**Diagram 3.1 Insider-out and Outsider-in balance**

Source: Adapted from Evered and Louis (1981: 389)

This research bears the limitation illustrated by Heraclitus. As a critical realist, the researcher must embrace the fact that all knowledge is fluid, conditional, and shaped by its particular

<sup>5</sup> "[Socrates said] Heracl[e]itus says, you know, that all things move and nothing remains still, and he likens the universe to the current of a river, saying that you cannot step twice into the same stream." Plato, *Plato in Twelve Volumes*, Vol. 12, translated by Harold N. Fowler, Cambridge, MA: Harvard University Press; London: William Heinemann, 1921. Found at <http://www.perseus.tufts.edu/hopper/text?doc=Perseus%3Atext%3A1999.01.0172%3Atext%3DCrat.%3Asection%3D402a>, accessed 20/12/2017.

social setting. Therefore, change itself is a vital element in this study. As to reflectivity, the researcher accepts that different people will have different views, assumptions and values in interpreting the world, although the world may exist regardless, as taught by a Zen Buddhist Master: “The world has nothing to do with us, but we have something to do with the world.”<sup>6</sup>

### 3.6.2 Critical review of the use of thematic analysis

In the initial stage of research, grounded theory was considered as a main method for data collection and analysis (Glaser and Strauss 1967). However, this gave rise to challenges in “derivation” in shaping patterns of codes, concepts and categories (Allan 2003). In particular, computer-aided code generation leads to detachment from contextual factors, adding difficulty to the process. Therefore, after a trial in the very early stage of learning, grounded theory analysis was considered redundant. Thematic analysis (TA) was regarded as a more appropriate approach for this study for several reasons. Firstly, given the researcher’s prior knowledge, it was impossible to assume no knowledge before embarking on the field research. Secondly, TA was seen as a base method dealing with incredibly messy and complicated qualitative research (Holloway and Todres 2003; Braun and Clarke 2006). Thirdly, it was thought that its flexibility might be suited to the theoretical or epistemological stance, in particular in complex social settings (Braun and Clarke 2006).

TA refers to ways of “identifying, analysing, and reporting patterns within data” (Braun and Clarke, 2006). In order to discover patterns for emerging theory, it requires consistent data organising, coding, writing, (re-)reading through an iterative process (Attride-Stirling 2001; Tuckett 2005; Clarke and Braun 2013). TA is considered an approach that can inform researchers through/via pattern identification, analysis and reporting. The advantage of using TA is that it is a flexible approach (Braun and Clarke 2006) that can provide both “bottom-up” and “top-down” perspectives in identifying themes (Holloway and Todres 2003), as well as being compatible with critical realism (Roulston 2001; also in Braun and Clarke 2006), thus helping to link theoretical understanding to the methodology. However, a potential disadvantage of TA may lie in the criticism that “anything goes” (Antaki et al. 2002; also seen in Braun and Clarke 2006: 5). In this research, both bottom-up (implicit) and top-down (explicit) approaches were applied. Top-down approaches were based on the literature research, (and) through the identification of the emerging themes; it provided direction in

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<sup>6</sup> This is quoted from a conversation with Master Ding Yong during the researcher’s visit to Zhong Fang Guang Temple, China, in 2015.

searching for answers to research questions. On the other hand, bottom-up approaches are utilised, which enabled inclusion of new material and avoided neglecting emerging new themes.

Similarly, to balance the advantages and disadvantages of TA, Attride-Stirling (2001) suggests using six phases to avoid potential pitfalls as well as to link why and how the data shows emergence or divergence: 1) code material, 2) identify themes, 3) construct thematic network, 4) describe and explore thematic networks, 5) summarise thematic networks, and 6) interpret patterns (Attride-Stirling 2001: 391). This analysis frame is in line with the research questions: why and how do philanthropic funders give? The six phases may be termed “familiarisation with the data”, “coding”, “searching for themes”, “reviewing themes”, “defining and naming themes” and “writing up”. The iterative processes of this research were adopted in accordance with these six phases, ensuring quality control and theoretical and methodological soundness.

### 3.6.3 Research limitations

This research is limited on several counts. First, the case selection was based on convenience sampling. Secondly, geographically the cases are bounded within a Scottish economic, social and cultural context. Arguably, in terms of duplication and generalisation, locating in one geographic area certainly set limitations towards different contexts both domestically and internationally. Even between Scotland and England, practice can be slightly different due to the different legal systems, which might impact on governance. Cultural differences might also impact on philanthropic giving. In different countries, factors such as the influence of different belief systems on philanthropic giving may also be different. National cultures grounded in Buddhism and Confucianism, for example, would present a different context in which to operate.

Thirdly, as regards epistemology, it might be assumed that “reality” is “independent”, “definite” and “singular”; however, reality is shaped by multiple factors. Data are presented through informants’ voices and are interpreted by the researcher. The researcher’s experience in grant-giving in the context of a country might enhance the understanding of data value, yet this “insider” view potentially presents problems of subjectivity. On the other hand, as discussed above, the researcher’s insider role alternates with that of being an “outsider”. This might have advantages for giving objective views, but equally it presents a situation in which the researcher might have missed some information. Therefore, the study claims are limited and contextualised.

# **Chapter Four: Introduction to Research Context and Case Study A – Grant-giving Venture Philanthropy**

## **4.1 Research Context**

The case studies were carried out in Scotland. Scotland has a population of 5.295 million (2011 Census) and 32 local authorities. There are 23,745 registered charities (OSCR<sup>7</sup> online [accessed 21.01.2015]), and it is estimated that a yearly budget of over £10 billion is handled by the charity sector, with about 183,000 trustees.

The OSCR Scottish Charities 2011 Survey indicates that 57% of Scottish charity income comes from the public. The survey shows a fluctuation of public awareness and interaction with charitable giving: for example, the proportion of respondents expressing themselves as “extremely interested” in charitable work has fallen from 33% (OSCR 2011) to 25% (2014).<sup>8</sup> However, the survey also finds that the number of people using charitable services has risen from 9% (2011) to 22% (2014). The number of people giving donations has risen from 89% (2011) to 92% (2014). The survey also shows that an increased number of people buy goods from and donate goods to charities.

As to charities themselves, 52% of them voiced concerns about matters of financing. However, only 5% of charities reported that these concerns had been caused by local authority budget cuts. The report also suggests that the number of corporate donations has decreased. In this changing landscape, it seems crucial to understand and configure ways to develop capacities and address the financial issues concerned.

Due to the nature of charity registration in Scotland, the current OSRC registry system cannot differentiate between funders and service delivery charities. A lack of overall official statistics has hindered in-depth understanding of Scottish funders. However, UK overall statistics may provide some insightful glimpses into the field. According to the Association of Charitable Foundations 2014 report<sup>9</sup>, authored by Pharoah et al. (2014), among approximately 10,000

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<sup>7</sup> The Office of the Scottish Charity Regulator: “The Scottish Charity Regulator (OSCR) is a Non-Ministerial Department and part of the Scottish Administration following commencement of the Charities and Trustee Investment (Scotland) Act 2005” (Source: <http://www.oscr.org.uk/about/about-oscr> [accessed 29 Jan 2015])

<sup>8</sup> [http://www.civilsociety.co.uk/governance/news/content/17735/trust\\_in\\_charities\\_rising\\_oscr\\_survey\\_finds](http://www.civilsociety.co.uk/governance/news/content/17735/trust_in_charities_rising_oscr_survey_finds)

<sup>9</sup> [http://www.acf.org.uk/uploadedFiles/Foundation\\_Giving\\_Trends\\_2014.pdf](http://www.acf.org.uk/uploadedFiles/Foundation_Giving_Trends_2014.pdf) [accessed 29 Jan 2015]

funding organisations in the UK, the top 300 make 99% of the total income.<sup>10</sup> New donations fell by nearly 10% from March 2013 to Oct 2014. Although charitable giving in the United States of America (USA) increased in the same period, the report states that the drop may have resulted from the financial downturn. It further indicates that funders have been compelled to conduct internal re-evaluations of management of resources and spending in order to reduce their costs, such as the management fee paid out for managing or investing the capital of an endowment. The Association of Charitable Foundations's report (ACF 2014) recognises that, in order to gain high levels of financial return on behalf of beneficiaries, trustees are facing the dilemma of whether or not to increase spending on financial management in order to receive increased capital gains.

The studies on the four cases were carried out over a period from July 2011 to December 2014. Four organisations were chosen according to their money-giving modes. Each organisation represents one type of financial support mechanism: Case A – grant-giving but applying venture capital principles; Case B – grant-giving but applying business techniques; Case C – mixed one-third grant and two-thirds loan; and Case D – business loan. The selection reflects the spectrum of grant models: from grant with zero return to loan with repayable financial interest. However, it is important to note that Case B started as a traditional philanthropy funder concerned only to distribute funding. During the process of data collection, it started adopting a strategic approach and applying business tools. This change factor contributes to the research, as it means not only being able to investigate different new perspectives but also to gain greater understanding of the spectrum of newly emerging funding models in Scotland.

Given the recency of the trend in adaptation or adoption of business techniques shown in this study, the findings should be regarded as preliminary, and any assessment of the profit to non-profit interface should not be regarded in terms of success or failure. This research focuses on processes rather than on effectiveness of outcomes. It is arguably too early to evaluate successes or failures given the nature of social change. The analysis is intended to provide tools for introducing new approaches integrating structural and non-structural support to show the philanthropy process from strategy to practice.

The following table (4.1) briefly presents the philanthropic characteristics of the four cases.

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<sup>10</sup> It is important to note that this survey is *limited to* ACF members, which might indicate a potential association with financially affluent organisations.



**Table 4.1 Overall characteristics of the four study organisations**

	<b>Case A</b>	<b>Case B</b>	<b>Case C</b>	<b>Case D</b>
<b>Strategic aims</b>	Support innovative solutions to social challenges	Support service users	Enable social enterprises and community organisations to start up, develop and expand	Support the third sector in developing capability to make sustainable social impact
<b>Social problem identified and/or method to address it</b>	Youth unemployment/ focused on one service area deeper and longer/ supporting system change	Supporting service users in deprived areas/ supporting service innovation	Helping a disadvantaged community affected by financial crisis and market failure to be more sustainable /supporting change business model and providing grant and loan finance for step change	Tackling financial inequality for the third sector comparing to the private sector/ providing alternative source of finance for third sector organisations.
<b>Structure</b>	Board of trustees, advisory board, strategic group and operational group	Board of trustees, administrative staff	Board of trustees, decision-making panel, operational team	Board of trustees, advisory board, operational team
<b>Governance</b>	Mixed professional input, distributed power for decision making	Mixed professional input, centrally controlled decision making	Mixed professional input, corporate board of trustees	Mixed professional input
<b>Source of Finance</b>	Mixed governmental, philanthropic, corporate, and peer-foundational	Single endowment	Mixed endowment	Mixed: from government and banks

Source: Developed by author

It is important to acknowledge that despite the difficulties and time commitment all four cases demonstrated high levels of desire to learn from different sectors and a willingness to share, which made the researcher welcome. Interviews were carried out with a range of actors, internally and externally. Internal respondents included trustees, founders and CEOs, strategic and operational group members, administrative staff – almost the entire group of staff involved. Externally, the subjects included leaders of grant-holding organisations, donors, individual philanthropists<sup>11</sup> and advisors, government policy-makers, think-tank experts, third sector consultants and private equity investors.

<sup>11</sup> “Donors” refers to corporate institutional philanthropic donations, while “philanthropists” refers to individuals.

The data from the four case studies are presented in the next four chapters based on thematic analysis, using NVivo 10 to manage the data in the early stage of data familiarisation. The findings are presented in three parts in each chapter. The first part introduces the backgrounds of the four organisations, their organisational aims and objectives, methods of addressing social problems and organisational structure and governance. The second part illustrates the emerging themes and patterns derived from the data, answering the core interview questions of why fund, what to fund and how to fund. The third part concludes with an interim summary of findings.

## **4.2 Introduction to Case A**

Case A adapts venture capital approaches within the grant-giving model, including providing non-financial support focused on developing overall organisational capacity. The grant provided is non-repayable. An individual entrepreneur (leader) who has long-standing experience as a corporate banker, as well as of modest engagement in Scottish community development, initiated Case A. This founder had seen many third-sector organisations struggling to fulfil their missions using disparate/unconnected, small, short-term project funds. Having to juggle heavy administrative workloads to reinvent the wheel with each different funder, they had no opportunity to be proactive or to focus on their own core business development. Frustrated at witnessing these Sisyphean struggles, the founder took a six-month sabbatical trip in 2008 to study Australian and American philanthropic models of giving. The founder considers Case A as making a “simple structure change” and “break[ing] the negative circle”<sup>12</sup> in social problem solving.

Consideration was given specifically to the nature of VP practice in Scotland, which differs slightly from that in the USA and on the European continent. Two distinguishing factors are designed into Case A’s VP model. One is its collaboration with the Scottish Government; in fact, more than 80% of the finance of Case A comes from public funds. The second is that the founder has developed a “three-legged stool” model in order to bring the private, public and third sectors together, working on the same area of social need. This is grounded in the founder’s belief that one should “concentrate on doing one thing, but engage deeper and do it really well” (Case A 2010) so as to produce genuine social results. Table 4.2 illustrates the coding for the respondents of Case A.

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<sup>12</sup> Source: from first-meeting note with the founder before this academic research, 2010.

**Table 4.2 Coding of the informants of Case A**

<b>Interviewees</b>	<b>Code</b>
Director and Investor	ASG01
Advisory Group Member and Investor	ASG02
Senior Management Team Member (Strategy)	ASG03
Senior Management Team Member	ASG04
Founder and previous CEO	ASG05
Development Manager	AOG06
Performance Advisor x 3	APA07/APA09/APA06
A Board of Director	AOG08
Director of a funding recipient organisation x 3	AGH16/AGH20 /AGH17
CEO of a funding recipient organisation x 3	AGH19 /AGH21/AGH18
Director of funding recipient organisation	AOG09
<b>Group Interview (3)</b>	
Strategic Senior Management Group meeting ( – ASG03-05 + 2)	AOG10
Performance Advisory Group	AOG11
Performance Advisory Group	AOG12
<b>Meeting Observation:</b> Senior Management Group Weekly Meeting	AOG13

Source: Developed by author

#### 4.2.1 Aims and objectives

Case A aims to support innovative solutions in dealing with Scottish social challenges. The chosen social challenges focus on youth unemployment, in particular among young people identified by the Scottish Government as not in education, employment or training (NEET)<sup>13</sup>. The identified aims are linked to desired outcomes, reflecting the ambition of tackling enduring social issues in a new way, with a view to having a higher impact and ensuring positive change to the community. The strategic objectives cover five areas of priority: 1) maximising resources

<sup>13</sup> Source: <http://www.parliament.uk/business/publications/research/briefing-papers/SN06705/neet-young-people-not-in-education-employment-or-training>

from strategic partners; 2) achieving long-lasting social impact by scientific and considerate compassionate approaches; 3) providing concerted support to grow charitable organisations' capacities for sustainable development; 4) attracting new resources based on clear evidence on social issues and delivery methods; and 5) cultivating organisational learning through sharing and rigorous evaluation.

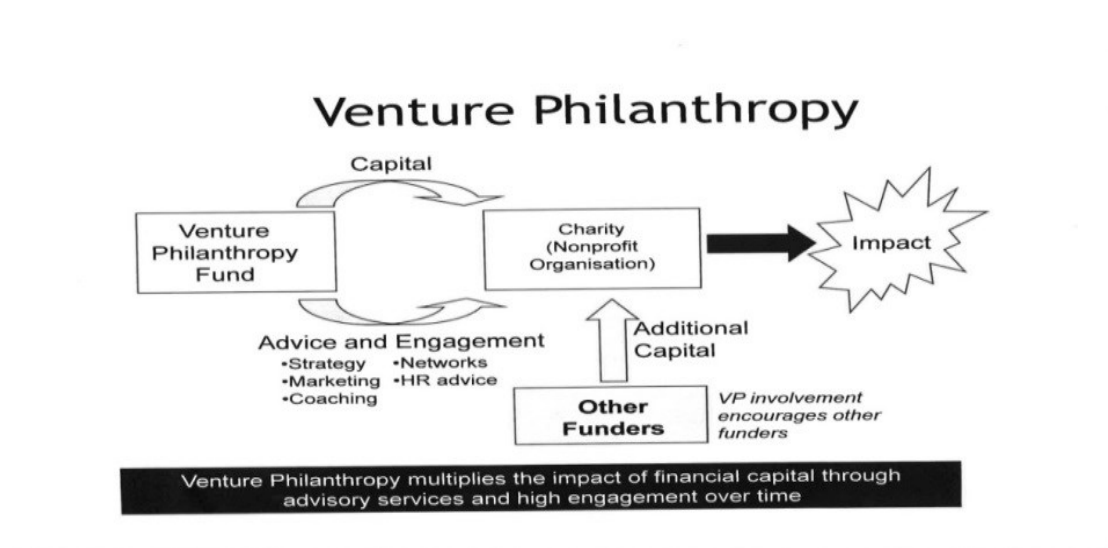
The founder and the staff consider Case A's model as an attempt to seek a more effective approach to dealing with social problems. This is epitomised in their strategic objectives for optimised effect with long-lasting social impact. To achieve this, "concerted and sustained support" is regarded as a core strategy to attract new money to the sector by targeting one area of social need. Learning is also highly valued, as seen in rigorous evaluation of the funding policy.

#### 4.2.2 Methods of addressing social problems [strategy]

Faced with the range of social challenges in Scotland, Case A has, as mentioned above, deliberately chosen to focus on one area of service to tackle: youth unemployment. Young people are perceived as the future of Scotland. Resulting from a strategic analysis after the founder's sabbatical trip, the founder has identified three main issues associated with charitable organisations: 1) scattered funding resources hinder charitable organisations' ability to develop work strategically; 2) bureaucracy has consumed too much of charities' time; and 3) lack of core funding to develop charities' organisations, with funding models tending to focus on capital expenditure for finite projects.

It is ingrained in the beliefs of the founder and early supporters that sectoral issues require a sectoral-level response. Thus, the method adopted is to provide "long-term funding, delivered in parallel to organisational development". Core strategic elements are presented as "long-term investment" and "tailored development support" using a "portfolio approach" (Case A Business Plan). Hence Case A's funding model demonstrates its desire to model private investment by promoting more rigorous performance measures while investing in a portfolio of organisations in order to achieve maximised return. The second feature of the model is its desire to develop long-term partnerships with all the stakeholders, including public, private and not-for-profit bodies. Ultimately, Case A intends to transform charities and grow their capacities to make real change through early intervention. It sees this as a cost-effective method.

The portfolio approach is considered as a unique feature by Case A. Its purpose is to help charities that share the same areas of service to work together towards shared (collective) goals. This appears significant in three interlinked ways. Firstly, it allows for economies of scale throughout cross-sector and inter-organisational administration. Secondly, it allows grant-holders to learn from each other, drawing on experiences of success or failure, in particular where measuring social outcome has been challenging. Thirdly, it builds a structure-serving peer learning, aiming to grow knowledge and skills through interchange between the private and public sectors. Thus, it is the intention that aggregated efforts may produce aggregated results from syndicated networks, bringing together public, private and third-sector resources.



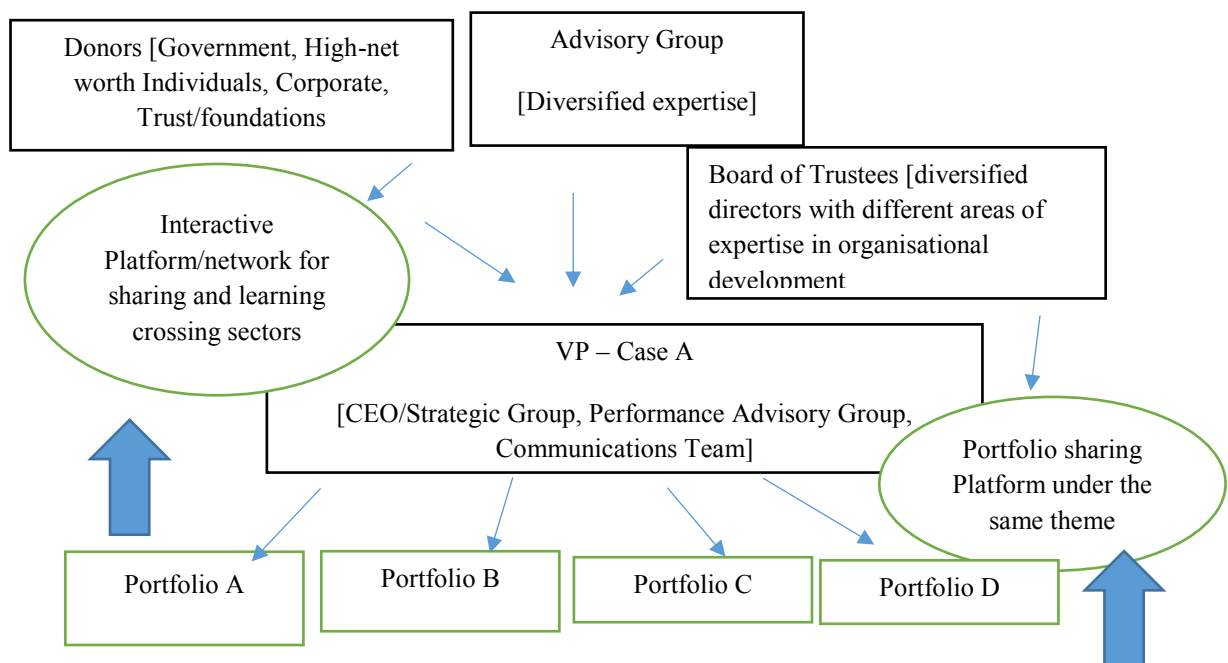
**Diagram 4.1 Venture Philanthropy – Case A Model**

Sources: Originated by EVPA and modified by Case A

Case A's fundamental ethos is embodied in its intention to create a new environment for change beyond what has been previously achieved by philanthropy. It is hoped that the transformation will emerge in/from new models of support. Based on the logic of aggregating financial and non-financial support, third-sector organisations (TSOs) may change their mentality and working behaviour and, thereby, increase their capacity to deliver core social services. Non-financial support is a core part of the model, including consultancy and professional support in generic organisational development. Thus, changes take place with integrated support, as in Diagram 4.1. The diagram indicates a significant intention to co-design services with different actors at different stages. How Case A deals with different perspectives and coordinates joint efforts, and what type of governance is required, will be further explored through thematic content analysis in line with the framework identified in the literature review.

### 4.2.3 Governance and organisation structure

Relationships are interwoven internally and externally as a core attribute displayed in Case A. Internally, there are a Board of Trustees (governance), strategic groups and operational groups comprising performance advisors. In particular, the performance advisors seem to be a new type of professional created by Case A. Their remit differs from those of traditional grant officers, assimilating the role of venture capital fund managers. A detailed exploration is presented in the thematic display below (Diagram 4.2). Externally, there are donors, strategic advisors and grant-holders. Staff numbers expanded from 18 full-time staff in February 2012 to 21 by February 2014. The online biographies of the six trustees indicate a high level of prior professional mixed engagement with the three sectors (private, public and third sector).



**Diagram 4.2 VP – Case A: Organisational Structure**

Source: Developed by author

Trustees (also the Board of Directors) are responsible and ultimately accountable for overall performance. The Advisory Group, on the other hand, has no legal responsibility, but stands by as a development resource, for instance moderating strategic decisions and contributing to resource input for both strategy and operation. The CEO leads the strategic group, performance advisors and communications team in dealing with four portfolio investments of different types. Each funding programme has an intended target and outcomes derived from the overall strategic objectives. The majority of staff members have various commercial backgrounds, including mixed experience in the three sectors.

To sum up, the secondary data suggests that Case A strives for sectoral change through innovative solutions. The support mechanism interweaves financial and non-financial resources, not only resource commitments and efforts in seeking new solutions but also structural development are utilised to facilitate change. Summarised below is the rationale trajectory of Case A's funding model.

The governance structure, which has emerged, shows the following attributes:

- a) Mixed professionals from private and other sectors have joined the Board of Trustees, becoming involved in decision-making at both board and advisory levels.
- b) The Board of Trustees is collectively responsible for mission change and for delivery of the new mission with maximised social impact. Decisions on close engagement will impact on relationships with grant-holders in the decision-making process.
- c) Distributed leadership features in Case A partly due to the founder's belief that "everyone is a leader in this change process" (the founder of Case A); power has accordingly been distributed among different actors through different stages of development.

**Table 4.3 Case A: Strategic Focus and Model Characteristics**

<b>Social Problem Identified</b>	<b>Strategy in addressing targeted problem (objectives)</b>	<b>Model designed</b>
<b>Inability to plan and deliver strategic plan</b>	Deploy investment provided by strategic partners; maximise the change effect	Long-term investment
<b>Time-consuming bureaucracy constraining service delivery</b>	Attract new money, evidence need, deliver clear social benefits, develop learning through rigorous evaluation, share knowledge of successes and failures	Tailored development support
<b>Diffusiveness of resource for core business development</b>	Tackle key social issues in a logical and thoughtful way, offer concerted and sustained support	Long-term strategic partnership across three sectors: private, public and third sector

Source: Developed by author based on Case A's working document

Collaboration at various levels has led Case A to engage with various actors. For example, by its design, Case A brings individual donors, private sector professionals, business consultants, entrepreneurs and professionals in the third sectors. To start with, the founder has influenced the Scottish Government's first investment from public funds, setting a fundamental philosophy to enhance and complement the Government's social service delivery.

**Table 4.4 Case A: Decision-making trajectory**

<b>Actors</b>	<b>Actions taken</b>	<b>Decision-making trajectory</b>
<b>Donors</b>	Buying into the concept, agreeing on conditional supports, including outcome and social investment on return, agreeing on management fee	Agreeing not to interfere in the decision-making process at an operational level but involved in knowledge-sharing process
<b>Trustee Board</b>	Responsible for portfolio investment, agreeing on strategic plan, accountability	Accountable for decision-making in particular portfolios
<b>Strategic Group</b>	Model design, evaluation and re-design, outcome measures and demonstration, feeding back to the decision-making loop for new development	Responsible for model design and re-design.

Source: Developed by author

Secondly, hands-on engaged support has influenced the service-producing process, rather than just waiting for outcomes. The integrated approach blending financial and non-financial support has resulted in early positive effects. Targeting sustainability and independence at the exit point, Case A proposes (its form of) goal-focused VP as an approach that might lead to higher performance.

### **4.3 Illustration of emerging themes**

#### **4.3.1 Motivation and value orientation**

Motivation refers to one or more reasons that drive Case A to behave in a particular way to achieve certain goals, such as adapting venture capital approaches. As discussed in the literature review chapter, motivation is intrinsically linked to individuals' beliefs, understanding of the social issues and value orientations. Motivational factors may lay the foundation of the funding model and promote decisions about optimised approaches to resolving social problems. Motivation may be driven both by internal and external influences.

“Impetus to change” is the most frequently mentioned theme by both strategic and operational groups and at focus group interviews when they are asked what has motivated them to join Case A. The responses indicate a high frequency of expectancy for change. Accordingly, the connotations of change and its related contextual factors were further explored through probing sub-questions.

First of all, “impetus to change” is perceived as eagerness to seek new ways to resolve repetitive problems at the sectoral level. This is seen in the collective voice of Case A's Strategic Senior Management Group (AOG010), unanimously showing particular interest in radical ways to bring about sectoral change. One might argue that the unanimity could have been caused by a



“contagion effect” possibly coming into play at the group interview. To avoid peer pressure, it might contribute to the convergent view. Therefore, the majority of AOG010 are followed for individual views. No contradictory voice was discovered. Moreover, the founder’s name appears in the top three repeated phrases used (based on the NVivo10 word count).

Reflecting more than 20 years’ experience, ASG03 has felt “extremely frustrated” at not seeing responsive change in the third sector; other respondents also repeatedly used the term “frustration” (e.g. ASG05 and ASG04). For example, echoing statements on the public website, they emphasise that third-sector organisations are under constant pressure to seek project funding, but, as perpetual passive recipients, they have no opportunity to focus proactively on their organisation’s core development. ASG05 (founder and previous CEO) feels that the third sector’s infrastructure has been left behind because social needs and welfare systems have evolved in recent decades while the TSOs’ development agents’ working methods remain the same. It is the founder’s intention to cultivate a new type of working environment, which allows TSOs to work to their strengths.

ASG03 indicates that there is “a kind of cohort of people” in practice, who are too impatient to plan for incremental change, while operating under the current normal routine. ASG04 (Head of Finance) also points out that his/her reason for joining Case A was to “collude” (said with a laugh) with people who share similar thinking and a passion for bringing about a sectoral change. Such “similar thinking” and “passion” might arguably have become a push factor for structural change, seen in strategic objectives.

ASG04 comments that, in practice, his/her motivation was also influenced by a research presentation at which he/she learnt of social and public service demands “working against government’s ability to actually budget to keep pace” in the long term; this epitomises ASG05’s motivation to engage with government to enhance social service delivery by a “pragmatic approach”. The founder intended to bring together new resources (wealth) from all areas of society in order to solve social problems. Moreover, motivated by his response to the fundamental structural and long-term needs of the third sector, it is also ASG05’s intention to develop systems to distribute new resources and to allow the aggregated impact emerging.

Similarly, ASG01 (Head of Investor Relations) says of fund-raising activity that there are different “mind-sets” between TP donors and VP investors (see above). In ASG01’s view, VP investors appear to be “self-made, entrepreneurial, and attached to business approaches”, and also keener on delivering change effects. Asking why donors provide financial support to Case

A, ASG05 comments that its design of VP models deliberately reflects the difference in culture between VP and TP. VP eschews TP's culture of empathetic grant-making (offering a helping hand), turning the focus instead towards developing the independence of grant recipients and measuring their performance and outcomes against their stated missions. The philanthropic motive has been translated into the strategic objectives of "being a thoughtful and logical giver for long-lasting impact. [...] We see issues that need to be addressed and articulated better and supported [using] a slightly more hard-nosed approach. We are not "nice" people, never have claimed to be nice people. We employ really nice people, but corporately we are not." (ASG05)

"Mind-set" changes apply not only to donors (as a new type of actor), but are also frequently reflected by strategic group members. This arises from their mixed sector backgrounds but is also driven by the desire to influence the sectoral mindset for change. However strong actors' mental desire for it, in reality change cannot happen in a vacuum. Therefore, the Case A model is designed for "changing the environment" and responding to "changing social needs and landscape". It is emphasised by ASG02 as a motivational claim that "making [the] landscape changes on a sustainable basis" and developing long-term effective ways of solving intractable social problems are key goals, due to the hollowing-out of state services.

To achieve sectoral change, highly driven change motives require commensurate methods. One proposition is "collaboration", referring to shared value creation through "systematic thinking and design", as stated by the founder and ASG03. The successfully negotiated support from the Scottish Government has been promoted as a "unique selling point". Highlighting this, Performance Advisor APA09 proudly shared that, for that reason, Case A has received international visitors wanting to learn about their model.

Meanwhile, as ASG03 passionately indicates, there is a need to "break the boundaries of silo thinking" for the third sector. A holistic approach is desired to connect different actors in the operating environment: for example, to set strategic objectives in alignment with government social service targets and to bring in private sector donors, including high net-worth individuals and corporate donors. The founder's belief that "it is not healthy not to engage with government" in social service delivery influences Case A's policy of engaging with government to attract more donors, particularly people who want to see significant social impact. Case A has attracted financial support from mixed sources: the public, private and third sectors. The role of Case A in the changing dynamics of supply and demand will be discussed further in the section dealing with resource marshalling.

ASG05 believes it is not difficult to find people who are willing to give money to help society; the most difficult challenges lie in demonstration of “added value”. ASG05 has created a value proposition, using the Penny Falls-type arcade game as a metaphor linking donors and recipients: without plenty of pennies in the machine already, “the [donor’s] penny will not drop”. He meant that performance measures apply not only to grant recipients but also to Case A. According to ASG03, Case A takes a certain percentage of the grant as a management fee of the money invested but only on condition of successful delivery of the social return. This suggests the emergence of Case A plays an intermediate and agent role dealing with resources redistribution. Case A intends to develop value-chain relationships through stringent performance measurement.

In the response of APA06 (Performance Advisor)<sup>14</sup> to the question why people invest in Case A, s/he suggests this is due to its unique model for measuring social return, which differs from TP. For example, s/he says: “investors would like to invest in a range of charities and particular themes, but do not have time and resources to find out the best way of getting the best social return on their investment”. This echoes the Head of Investor Relations’ view that VP investors are more interested in adaptation of “business techniques” (ASG01). Seeking to meet this need, the model Case A has attempted to sell is the “portfolio approach”, assimilating a venture capital model. Case A has positioned itself as an “organisational fund manager”, according to APA06, meaning that it is motivated to act as a financial broker, but one that expects social returns rather than financial ones.

Studying the demand side of the grant-holders’ perspective, the research shows that motivation to apply for VP funding actually echoes VP’s ethos of adopting business approaches. For example, AGH19 (CEO of a grant-holder) says that external funding changes (relying on governmental development agencies’ [money] in the past 20 years for service delivery) have pushed his/her organisation to become more entrepreneurial and put more effort into adopting business methods to increase their income stream.

“We don’t have long-term secured core funding for the organisation. So we have to come up with products, ideas and projects that other people are willing to buy to pay for it. We’ve got to develop it to an exciting and attractive package [for] nearly 20 years [we’ve been] supported by the government agency. Now we have to find other [ways

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<sup>14</sup> APA06 comments, “the role of the performance advisor is to help, support and advise the ventures and also to monitor and evaluate their performance.”

to] work. How is it operated? By being an entrepreneur.” (AGH19 – CEO of a grant-holder).

Moreover AGH18 (General Manager of a grant-holder) indicates that the attraction lies in the non-financial (pro-bono) support to develop organisational management capacities. In the case of AGH16 (General Manager of a grant-holder), both financial and non-financial support was sought to operate a changed business plan intended at commercialisation: it now charges commercial rates to sell products and services at their youth hostel, which is run by young people.

Change motivation is high in Case A as demonstrated in Table 4.5, and as seen in the founder’s name appearing so frequently in interview. According to respondents from every category, it was the founder who hunted out strategic members. Although hollowed-out state services and a changing environment might have served as secondary forces, fundamentally, the original drive was motivated by individual entrepreneurial leadership. Other than his own motives, there was no pressure on the founder, as a former banker, to set up any initiative. Individual motivation by proxy is interwoven at the organisational level through his influence on other actors, while the design of the model appears to be a product of blending the motivation of the various stakeholders.

#### 4.3.2 Governance in strategic choice

In terms of governance, Case A’s Board of Trustees is ultimately responsible for the organisation, in particular for its target of maximised social return from fund investment. While governance in TP might only concern itself with administrative matters, such as whether the project money has been used for charitable purposes, the effect of the money seems not to be questioned. The strategic mission and objectives require a higher, risk-taking governance and leadership beyond the bureaucracy.

Studying the biography of the trustees suggests a high proportion of professionals from a mix of backgrounds. The Chairperson is specialised in “executive education and management development.”<sup>15</sup> The Board’s knowledge and expertise includes “(ex-)Head of Justice Department of the Scottish Government”; “coach and change consultant”; “marketing in the technology and telecoms industry”; “private equity”; “advisory role to the Scottish Government NEET young people”; and “HR and organisational development and learning services”. The

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<sup>15</sup>Case A website

knowledge and expertise pool suggests three key attributes in VP: “education” “learning” and “development” for issue-based problem-solving. The targeted approach differs from the traditional mass service. On the other hand, the new model requires governance to be shifted from a traditional transactional relationship to a “relational” one. Increased risk is seen in the Board of Trustees (TB).

Tracing the decision-making trajectory shows that power has been distributed from the CEO (founder) to the Performance Advisors (PAs) and Strategic Members, from the Board of Trustees to CEOs, although the TB ultimately is responsible for each portfolio investment, rather than all being centrally controlled.

Applying business techniques in the decision-making process appears to be another new element. It focuses on outcomes and results rather than legal compliance, i.e. meeting charitable purposes as laid down by the Charity Commission. Implementing such a model suggests a strong commitment led by the TB towards raising service standards and accountability. Collaboration on resources and ideas among the public, private and third sectors has demonstrated one way forward, coupled with openness to absorbing knowledge and application to social service delivery. It also shows willingness to manage the new type of relationship. A system has been developed to facilitate new ideas, new knowledge, training and development for emerging skills across areas blurred boundaries. It is also worth noting that failure is treated as a learning process. In fact, although not hoped for, few failure cases have been written off from the operation, according to ASG01.

#### a) Project priorities

Case A’s organisational objective states that its service priorities focus on Scotland’s NEET young people. In the beneficiary organisations, from the working documents, focus group meetings and individual interviews, the following features clearly emerge as being among the highest priorities:

- a) ability to provide collaboration at a local level to shape a syndicated network for a knowledge exchange hub;
- b) scale-up is highly regarded. (Scale-up is understood by Case A as entering new markets or new exclusive areas, providing new services to new geographical areas, or applying a successful model);
- c) local communities have a rich knowledge about their service users, meaning potential to bring key stakeholders together for joined-up work.

**Table 4.5 Case A: Motivational Data Display Matrix**

<b>Informants, including focus groups</b>	<b>Actors' motivation (comments at interview)</b>	<b>Thematic Parameters</b>	<b>Notes and Comments</b>
<b>Donors</b>	Need to know where the money goes (ASG01); frustration over past engagement with charities (investor); expecting something interesting and new in Scotland and interested in giving substantial sum but looking for attractive proposition just as with commercial tendering (ASG02) – returned Scotsman, philanthropic investor)	Innovation; value; assimilation from commercial investment	Personal drive, commercial background and entrepreneurial experience play vital roles
<b>Strategic management group (focus group)</b>	Frustration with silo society and its silo thinking; impetus to seek new ways (ASG03); making landscape changes on a sustainable basis (ASG02); funders as “self-made” and “entrepreneurial” (ASG01); assimilation of charitable giving and private investment (ASG01); collaboration (ASG05); “hard-nosed” on outcomes – attractive to funders but not (corporately) “nice” (ASG05)	Impetus for change (frustration); complementation of government service delivery; changing mind-sets; collaboration for shared value; shift from altruism to hard-nosed giving; assimilation of commercial investment models	Isomorphic change forced by internal and external change factors; changed supply and demand
<b>Operational group (focus group)</b>	Managers deal with the bond fund; the role of the performance advisor is to support and advise ventures, also to monitor and evaluate their performance	Focus on professional development and functioning, structural change	Isomorphic change by adapting new structures for new professionals
<b>Advisory group members and trustees</b>	Motivated to support new ways to deal with social issues (A8 – trustee, a university professor); little coordination in third sector in full cycle of activities; lack of joined-up thinking (ASG02, investor)	Systematic thinking and service design; collaboration for shared value	Desire to develop systematic models, collaborative thinking, design and action
<b>Grant-holders (funding recipients)</b>	Needing money for: a new business model (AGH14); non-financial support (AGH19); support for growth strategy and association with a reputable organisation (AGH16); future costs (AGH18), support for scaling up (AGH17); generating an income stream (AGH15)	Support for growth and scaling up; association for status (reputation); two-pronged support	Demonstration of changing social need; coercive isomorphic change (funding sources)

Source: Developed by author 2015

## b) Selection

It is interesting to note that no specific written criteria for project selection have been published by Case A, apart from mission-related statements (strategic objectives) publicly available online. Instead, both primary and secondary data show a high level of interest in grant-applicants' business plans and their ability to deliver the plan. Unlike funding applications required by traditional philanthropy, there is no standard template or pro forma for grant-applicants to fill in.

Three major differences are discovered in the project selection: first, PAs act as new emerging professionals managing the project selection (who to select); second, the selection process is based on the viability of the business plan (how to select); third, there appears to be a "portfolio approach" with a collective selection target (select for what).

PAs, as front-line funding officers, seem to play a different role from the traditional funding officer. They view themselves as brokers of services, both financial and non-financial, to grant recipients. As the job title itself explains, the purpose of the PA is to ensure delivery of the outcome. Traditional grant officers might keep an arm's-length relationship from their grantees; however, VP provides hands-on engagement with a role in business mentoring. The PA appears to have mixed professional background from the three sectors. This different background and motivation for change may have had an impact on project selection. Although both the PA and the traditional grant officer carry out the tasks of funding assessment and grant monitoring, their approach to conducting these tasks is different.

PAs indicate that due-diligence assessment starts from the first phone call they might receive from a potential applicant and continues throughout the funding period to the exit point. PAs perceive this as an "organic development" because they know "the ins and outs" of the applicant organisation, enabling decision-making to be based on better comprehension of both organisational capacity and individual leaders. The assessment is fluid, based on business priorities and ability to implement a plan for change. However, according to APA07, the backing of entrepreneurship leaders is important for VP (this is also echoed by AGH19, CEO of a grant-holder). Investors tend to invest in influential leaders who are committed, resourceful and passionate about change.

As to who to give to, study of successful grant-holders and focus group interviews shows a tendency towards three types of organisation:

- a) organisations that are capable of becoming regional hub organisations for learning ;
- b) organisations with “viable” models funded by other funders, seeking continuation and scaling-up of services;
- c) organisations that have business plans for change either in service delivery or organisational change.

However, Case A’s due diligence selection process automatically excludes start-up social organisations as, by definition, they lack a record of accomplishment on which to check their fitness. So far, no data are presented to show investment support for a start-up and one social entrepreneur who had initiated new ways of working with disenchanted young people revealed to the researcher that no support could be received from Case A for such a start-up. Case A’s strategy is to mitigate the risk by linking selection to evidence of performance. Case A handles project selection carefully. While traditional philanthropy may also select projects carefully, it does so perhaps more generically or at more of a distance.

Case A selects projects and places them in “investment portfolios”. Each fund has not only its designated purpose, but also associated donors and targeted outcomes. Thus, assessment is done not only at the individual level but also at a collective one.

#### c) Monitoring

A Case A monitoring report is linked to the performance agreement, which is a legal contract between Case A and the beneficiaries. Monitoring takes place on a quarterly basis against agreed outcome measures as an early-intervention mechanism for identifying issues and problems. This is to avoid failures and to adjust methods and resources, if necessary, for the ongoing process.

Although a social impact matrix is applied to the monitoring process, the staff members are aware that social measuring is an extremely challenging task. Case A keeps an open mind with regard to the learning process, for example constantly encouraging staff members to engage with scholars and participate in various external learning events. This is demonstrated to be good practice in the shaping and developing of metrics measurement. According to focus-group interviews, new insights are gained from this monitoring process. Meanwhile, Case A also delivers training for beneficiaries on how to apply social impact measures, so that evidence on success and failure is captured either for scaling-up or sharing learning.



### 4.3.3 The engagement process

According to the literature, a distinctive feature of VP is deeper, “hands-on” engagement and longer-term relationships with recipients, while TP has a tendency to maintain more distant (arm’s-length) relationships. It is claimed by ASG03 that Case A intends to enter “relational relationship[s]” rather than the “transactional relationship[s]” that might occur in TP (mere cheque-writing followed by little or no engagement). Case A’s deep engagement does not, however, imply any intention of interfering with grant-holders’ autonomy (as clarified by the focus group and echoed by ASG03). Although sitting on the board, Case A has no wish for voting rights or control of [actual] governance. In this it differs from case studies quoted in the literature, in which CEOs were frustrated by VP control of board meetings (Moody 2008). AGH21 (CEO of a grant-holder) noted approvingly that [Case A’s] PA participated both in the recruitment of the new CEO and at board meetings, but only as an observer.

“There is a spectrum within philanthropy from transactional to relational. Transactional is very much about ‘fill in the form, pass, fail, and get the cheque...’

– very little [about] engagement. [The other end of the spectrum extends] to [what I mean by] relational philanthropy. I don’t know where the furthest ends of it are but we are much further up [towards relational] in our intent. [We] are very engaged with the giving (or the investment, in our terms). I think there might be some American models probably [even] more [deeply] engag[ed], which means some people do put folks on boards of voluntary sector organisations. We haven’t done that and don’t think it is appropriate. We’ve followed Mark Kramer, who talked about catalytic philanthropy. I wonder if there is [another] step again, [where] actually the philanthropy gets completely woven into the doing.” (ASG03)

In practice, Case A’s PAs provide two-pronged support to their grant holders, ensuring the achievement of the shared goals. Case A demands that grantees sign a “partnership agreement”, which is legally binding and drafted with the help of a lawyer. At the outset, both parties agree performance measures and social return. In addition to inserting performance advisors (a new role), Case A perceives the purpose of deep engagement as being to “create a business win-win environment, not bully them with a whip [or] stick” (ASG05).

According to feedback from grant-holders, Case A's [PAs'] hands-on engagement is viewed with trust. They feel at ease about sharing problems, as with "a critical friend, a critical business mentor" (AGH14). For example,

"[The PA] graduated from Harvard Business School, has significant business experience and is extremely successful in [his/her] own right." (AGH21) "... there is quite a strong working relationship... [Case A] [has a] positive vested interest in us, [s/he is] interested in us as an organisation." (AGH19)

"... so essentially there is a high level of trust between me and [The PA] (AGH20) "...feeling at ease to talk about problems and struggles [with the PA]" (AGH18) "... [The PA] knowing the 'ins and outs' of the grant-holder" (AGH19) "helped us restructure the organisation in the whole process" (AGH16).

Non-financial support, as discussed earlier, refers mainly to bringing in "pro-bono" professional consultative engagement. By doing so, Case A plays the role of knowledge broker bringing not only money but also people and skills into the change process.

Another distinctive feature found in Case A is to go beyond the "portfolio investment" approach (bringing together organisations that share the same areas of development) to develop a syndicate network approach intended to build up an infrastructure to bring people together from different backgrounds, different fields and different levels of engagement with charities. For entrepreneurs, investors, potential funders and grant-holders, this is expected to be a rich medium for the fertilisation of mutual understanding and the cooperative growing of ideas for a harvest of positive social outcomes.

AGH18 perceives portfolio peer learning as an effective ("smart") way of saving the costs of professional development, in particular at a financial down time. AGH18 also shared that VP has made efforts to bring bank managers to visit their site, resulting in banks lending due to a more deeply developed trust ("seeing and believing it"). The five-year infographic online<sup>16</sup> records that more than 200 pro-bono supporters have donated more than 2,200 hours of professional services annually. However, a performance advisor shared at one informal meeting that some negative impact has occurred due to lack of contextual knowledge about the sector by the pro-bono consultant, and that a business model used in the third sector would not work without proper justification. PAs paid special attention to the process of how to match pro-bono support to the grant-holders.

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<sup>16</sup> Source: Case A official web site

In the VP concept, the role of PAs appears to be different from that of the traditional grant-officer. Rather than distributing the fund, the PA plays a fundamental role in growing the capacities of the funding recipient organisations, providing consultative engagement and supporting the development process and overall performance. Moreover, the PA also plays an early intervention role to avoid issues growing bigger, trying to find solutions in the support process and mitigating the risk as well. To fulfil the role of PA, a person requires constant and ongoing learning and development, by deep engagement with the stakeholders at different stages of development and by dealing with ongoing changes. Therefore, a PA carries an additional role as opposed to a funding officer, who merely acts in an administrative role, by focusing more on hands-on business development.

#### 4.3.4 Entrepreneurial investment approaches

##### a) Appetite for risk-taking

Surprisingly, all the respondents mentioned risk-taking as a positive element with potential for allowing freedom. This might come from their business-oriented attitude: for example, ASG02 said that risk is not a problem at all, as they were used to it from business investments, but they highlighted the importance of finding ways to mitigate and manage risk.

Risk refers to all unknown factors that might potentially hinder the achievement of investment return. However, the portfolio approach is used to diversify risk, by placing together organisations that are ranked at different levels in order to achieve an overall balanced outcome.

According to Grossman (1999), over-diversification of donors can be detrimental in the operation of VP. However, the findings from Case A suggest a harmonious relationship can be achieved via a non-intervention agreement at the outset. Donors are invited to participate in the engagement process but not in decision-making. Also by agreement, Case A's donors focus on outcomes. As APA09 comments: "We only care what they are going to achieve at the end; in terms of how to achieve it, we don't interfere, which is their strength and speciality". It seems to be a gentleman's agreement formed at the outset, based on the trust and reputation of the founder of Case A; however, risk is managed through hands-on engagement and agreement on legal obligations.

On the other hand, mixed sources from the three sectors suggest another way to spread the risk. Another big risk and challenge facing Case A is that the majority of its finance comes from the Scottish Government, although in the past five years, Case A has raised £50,000,000 from

private funding sources. Whether the Scottish Government remains its financial source or how, if necessary, to replace that biggest share is questionable.

Risk has also been managed by the PAs' "close engagement" with grant-holders so that any pitfalls or issues can be detected at an early stage before they deteriorate. In order to support grant-holders' independence at the exit point, resource leverage has been raised and strongly supported. This has helped to unlock "more than £27 million in resources in the past five years".<sup>17</sup> Examples of leveraging resources include taking funders to interact directly with young people; taking corporate banking supporters to the youth hostel premises; and setting up a platform to engage funders directly with grant-holders. As in VC, time is considered an important element in the VP approach. This refers to "timing" and a "good time to invest and exit". As discussed earlier, VP provides longer-term relationships to give change more time to happen. As VP's philosophy also believes that time can allow grant-holders to focus on core business development, grant-holders can grow a solid capacity either for real change or for independence.

#### b) Investment conditions

Investment conditions are set in the funding agreement. Due to confidentiality, the original documents were not available for the research. However, interviewing suggested the following attributes.

One of the key features of Case A is long-term funding because it aims to invest in the "core costs" contributing to the general operational costs. It is their belief that in this way, space (time) will be freed for innovative thinking, allowing more focus on addressing the social issues. A second point that emerged from Performance Advisors is the business model (plan). It requires beneficiaries to clearly articulate their needs: what the money is for and how to measure the social impact. A third condition is agreeing on the coaching relationship between Case A and the beneficiaries. As Case A engages highly with the beneficiaries, AGH19 reveals that at the organisational leadership changing point, for example, Case A has participated as a member of the interview panel, although not involved in decision-making. The power of the shadowing position is offered to Case A by the beneficiary.

#### c) Resource marshalling (including competences)

"I think what we said in our literature, I think fundamentally, [...] will explain the origins of [...] to you, and I suppose I will take that as the backdrop. But, fundamentally,

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<sup>17</sup> Source : Case A official website

take the principles of venture capital, private equity investment and apply them to the voluntary sector. And there are the principles that are alive for the longer term and more strategic funding tailored to the development support, non-financial support, and essentially seeking SROI (Social Return On Investment) rather than financial return. I would say that's what it means to us under our approach, very engaged approach.” (ASG01)

As in the essence of the above quotation, VP adapts venture capital and private equity investment approaches. With regard to resource distribution, Case A is committed to two main attributes: long-term investment (finance) and tailored development support (non-finance). This is derived from its philosophy of making mind-set and behaviour changes in the third sector, in particular aiming for sectorial change. Case A believes that longer-term funding may provide space and time for concentration on core business development rather than diverting efforts into juggling for short-term project funding. In addition, tailored non-financial support is designed as a support mechanism, aimed at capacity building. Specifically, support is available for generic and core organisational development, which includes dealing with issues in the areas of marketing, human resources, strategic planning and governance. These areas lend themselves better than some others towards the application of management-oriented skills provided with consultative support. Case A's funding is provided longer-term, ranging from five to ten years. Details of Case A's requirement, specification and measurement of outcomes are discussed in the later part of this section.

Case A's income and resources are from “individuals, business leaders, companies, trusts and funders and the Scottish Government”. The sources are diverse, coming from individuals to organisations, and across the public, private and third sectors. It is interesting to note two points: first, negotiating the first large amount of financial support from the Scottish Government was seen as a great leap for a start-up funding organisation. Second, even peer trusts have provided resources to support Case A's pioneering innovation. In return, Case A is required to demonstrate social return to its diverse range of donors. As mentioned earlier, in practice Case A has claimed a certain percentage of income received from donors as its “investment management fee”. This is seen as an application of the market approach, suggesting performance measurement and provision of added-value in quantified financial terms. Case A also applies outcome measurement to its own performance.

#### d) Innovation models

Perceptions on innovation are varied. Innovation is seen not only as an outcome but also as a part of the engagement process in Case A. Apparently innovation is discussed on a daily basis, and respondents at different levels reflected on it as being embedded in the organisation. Born out of innovative thinking and design, innovation is perceived as “finding a way of formatting and reformatting the changes of landscapes” (ASG03).

Innovation, to ASG05 as a founder, refers first of all to breaking negative impact patterns. Being a “thoughtful leader” has been highly regarded for the implementation of change, but without an understanding of “changing needs” and “justifying the matching support”, it can be difficult to achieve positive end results. Therefore, action-based learning and critical review are equally highly regarded in VP. A syndicated network has been mentioned above as an in-built structure for the facilitation of learning and resource exchange. The evidence shows three levels of learning: internally, Case A organises regular meetings for reflection and self-critical review. Externally, grant-holders are required, as a condition of the original partnership agreement, to host regular sharing events. At the local level, a learning hub is established for sharing ideas and channelling professional support. Internationally, the researcher was invited by Case A to attend the 2011 and 2012 European Venture Philanthropy Association annual conferences, along with CEOs of grant-holders from different parts of Scotland (Edinburgh and Inverness).

Observation at a senior management weekly meeting suggested two innovative elements. First, VP is not simply taken off the shelf and applied to philanthropic giving. The form of VP applied in Case A results from “critical debates and self-reflection” on the effectiveness of the model, and from setting “quality standards and intellectual vigour” (ASG03). At weekly meetings, debates still take place regularly.

“My understanding of innovation is that it often can be things that exist currently, just used in a different way, combined in a different way. I think that five or six steps of [Case A]: you can see each one of them exist in a different way somewhere else. Where it becomes unique ... let’s be brave, let’s say unique ... is how we combined them. So you look at the capacity support, you can find it elsewhere; you look at multiple funding, it is rarer. However, you can see that comes together, comes elsewhere. And, long-term funding – pretty rare, but you can see some examples of it impact measurement. You can see that initial analysis, so all these things existed to a better or worse, good or bad level. Whereas I think we take each one of them and engineer them all together in a way that particularly suits the Scottish context and the task we want to

undertake. [...] so I think it has quality standard and intellectual rigour around it.” (ASG03).

The nature of Case A’s model requires joined-up working with key actors at different stages of development. That is to say, the ultimate service delivery is achieved through co-developing and co-design with its key actors. Maximising knowledge input can also minimise risk. Deeply engaged collaboration with diverse actors may, however, require flexible governance.

Similarly, the PA quotes innovative examples throughout the engagement process. On a regular (monthly) basis, critical review is applied for ongoing development:

“I think that’s another of the unique selling points (USPs) of our venture philanthropy model: that, from day one, even the due diligence, there was a big feature on the viability of organisations’ exit strategies. And I think that’s an ongoing challenge because the context has changed so dramatically, but it’s something that we probably talk about on a weekly basis, monitor on a weekly basis, and more intensively on a quarterly basis to say ‘What [are] the chances of our investment resulting in that organisation being stronger, being more sustainable, as well as being bigger and better?’ You know, it’s about what happens when we’re not here.” (APA07)

#### 4.3.5 Exit strategy – evaluation and key performance measures

VP expects to apply a system of measurement and provides an ongoing evaluation, formally and informally. Formally, a memorandum of agreement is signed between the investor and grant-holders which states expected outcomes, deliverables and planned exit strategy. At which point, VP expects its grant-holders either seek out for alternative funders or financially ready to be independent. Such a document has a legal binding effect, prepared by legal professionals.

On an ongoing basis, Case A adopts the “balanced scorecard”<sup>18</sup> and other organisational developmental tools, which covers four categories, demonstrated in Table 4.6.

**Table 4.6 Case A – Balanced Scorecard Sample 1**

Planned Spend vs Actual Spend
Income Generated vs Planned Income with Case A’s Support
Number of Months Financial Cover
Organisational Income (without Case A) Plan vs Actual

Source: Developed by author based on Case A working document

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<sup>18</sup> Balanced scorecard is a business tool used for strategic planning and internal and external communication and monitoring. See attachment in appendix.

Formal evaluation takes place periodically, monitored by PAs. Whether applied to grant-holders or to Case A itself, the focus of evaluation is always linked to the mission. One might argue that the use of the balanced scorecard is not new, as traditional funders also ask for beneficiaries' destinations. However, what does appear as a new element is holistic monitoring combining quantitative and qualitative data against overall organisational development: for example, financial income generated, a hard-core measure of performance in the market place, is targeted. For organisational development, the following categories are used as demonstrated in Table 4.7.

**Table 4.7 Balanced Scorecard Monitoring Sample 2**

Services delivered vs planned
Intervention quality rating
Governance reviews completed
Governance development plans implemented
Staff numbers vs planned
Number of services planned vs actual
Key person dependency
<u>In terms of outcome, the measures are as follows:</u>
Positive destinations: Employment
Positive destinations: Education
Positive destinations: Training
Progression milestones
Early months' soft outcomes
<u>Under the category of SROI, the following measures are used:</u>
Employability savings
Benefits savings
Health savings

Source: Developed by author from email exchange with Case A

#### **4.4 Summary of key findings**

Table 4.8 summarises the key findings from Case A. Case A was born of and is driven by an individual entrepreneur's efforts for change. These efforts were marshalled using a key Scottish philanthropic group. By joining forces, other entrepreneurial types motivated for change have been drawn into the organisation. Once the initial resource was committed, significantly, along with the support from the Scottish philanthropy community, the founder managed to receive the first block of financial support from the Scottish Government. The model as practised by Case A is a three-legged stool, bringing the public, private and third sectors together to solve intractable social problems.



**Table 4.8 Case A: Key Attributes within Thematic Areas**

	<b>VP grant model</b>
<b>1. Motivation and Value Orientation:</b>	
Systemic change, long-term solutions, innovation stimulation	
<b>Resource-value-based view</b>	
Finance	Mixed input from the three sectors (private, public and third sector trust)
Competences	Mixed professional input from the three sectors, financial, technical, business know-how, expertise in social matters
<b>2. Governance and decision-making</b>	
Project priorities, funding policies and selection	Focused on thematic areas; targeted, capital market models, focusing on growth and scale-up; injecting resources for capacity building, supporting resources leverage and collaboration amongst the fund recipients
Selection	Due-diligence, focusing on business plan rather than specified application. Holistic assessment
Monitoring	Measuring targeted deliverables; monitoring and managing the process on a regular basis
<b>3. Engagement Process</b>	Close, consultative, hands-on, supporting designed organisational development for the longer term
<b>4. Entrepreneurial Investment Approaches</b>	
New business tools applied	Contractual support, venture capital business techniques applied; design and implementation of syndicate learning platform – bringing fund-recipients together to share and learn on a regular basis
Collaboration	Co-design with the fund recipients; involvement of partners at different stages inputting different levels' expertise and knowledge; brokering relationship
Risk-taking and innovation	Appetite for high risk; driven by innovation; embedded in the motivation and its delivery process; managed and calculated risk-taking; medium-high
New actors	Bringing in new actors from the three sectors for money, knowledge and expertise
Investment conditions	Outcome-driven; failure acceptable as learning; high level of trust
Innovation model	System innovation; intending for sectorial change
<b>5.Exit Strategy</b>	Preparedness to exit at the end-point of the funding, expectation for fund-recipients to be independent by then; original founder's exit from the organisation as an exemplary model

Source: Developed by author

The intention of making sectorial change has graduated from the individual to the collective level by bringing people together, as seen in their project design and their implemented model applying venture capital investment techniques. The working approach is to choose one specific area, here youth unemployment, to tackle. The founder's philosophy is to concentrate collective resources on working in one area longer and harder in order for effects to emerge eventually. Driven by an outcome shared with the grant-holders, committed support has included financial and non-financial assistance. As this is an early pilot case, Case A prioritises learning highly, embedding it in the whole process. For example, a structured learning platform for the syndicated network; regular sharing with grant-holders in the same portfolio investment;

regular newsletters updating external funders' intelligence; pro-bono support; business mentoring and active participation; and inviting CEOs to engage with international actors in VP development. These networks have indicated that Case A regards people as centrally important resources.

Case A treats recipients as service delivery partners, sharing successes and failures. The concept of shared value has determined shared input into the service delivery process. The three-legged stool model (linking the public, private and third sectors) appears as a unique characteristic for Case A. Oriented in the new model in operation, assimilating venture capital approaches, both finance and non-financial support are provided and a stringent measuring system. The model has not only attracted private-sector involvement but also increased its role in the service production process by providing business mentoring and other pro-bono support. In the process of implementing a VP model, Case A has implemented the following changes:

- a. Procedural change: shifting assessment from traditional grant application to viable business models. This shift in procedure has required the third sector to prioritise its thinking on overall organisational development rather than on short-term projects.
- b. Standards change: arguably, hands-on support and tightened performance measures could enhance the development of overall standards of third sector performance in terms of professionalism in applying management and market-oriented techniques.
- c. Personnel change: hovering around the private, public and third-sector boundaries, Case A deliberately invites and seeks out collaboration from the three sectors for shared value creation and shared service delivery. The findings indicate that professionals have moved from the private and public sectors to the third sector.
- d. Structural change: building up syndicated networks has broken down the artificial boundaries between the three sectors, providing glimpses of new thinking aimed at delivery of social services. The alignment of more than 80% of the Scottish Government money suggests a tendency towards an increasing role for funders in piloting innovative solutions. Meanwhile, it also proposes a new way of thinking in terms of a new role for the Government in this emerging context. Due to its distinctive features – for example, motivation for change, venture philanthropy support and outcome measurement – one might argue that Case A has a strong likelihood to be a catalyst or fulcrum for change.

# Chapter Five: Case Study B – The Grant-giving Approach

## 5.1 Introduction: Case B

Case B was chosen to represent an early adopting organisation of a “new” funding model. It started to use a pure grant-giving model of TP funding at the outset, before gradually moving to adopt business approaches VP in its funding strategy.

Case B was established in the 1990s, founded by a sole donor, who had inherited the entire family wealth of a well-known global business. When the founder died in 2008, the wealth generated from the business and the residue of the inheritance were endowed totally to the funding organisation as a legacy, including shares in the family business. The funder’s financial capacity was thereby significantly increased, reaching more than £6.2 million, “doubling its size” according to its annual report (2009) to OSCR.

After the death of the founder, two significant changes were made in amendments to the Deed of Trust Declaration (issued in 2009). One was to reinforce the statutory implementation of the Charities and Trustee Investment Scotland Act (2005). The second was influenced by the intake of new trustees, who desired to change the governance guiding document to correspond to external changes in the operating environment, for example the financial crisis and government austerity.<sup>19</sup>

Case B originally intended not to employ any staff in order to minimise administrative costs. Later, it hired a part-time assessor who provides suggestions for grant decision-making at the initial stage. However, as a result of changed strategic objectives, further changes in staffing are seen.

### 5.1.1 Aims and objectives

Case B aims to provide services for people in poverty who lack access to existing provision. Its Annual Account Report (filed with OSCR, 2012) suggests that this aim has resulted from two strategic changes. Firstly, in 2008 it changed from previously global service coverage (e.g. Naples and African countries) to confining coverage to its home country, where it feels that it is more knowledgeable about social need and better able to identify the most deserving cases.

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<sup>19</sup> According to interview of trustees.

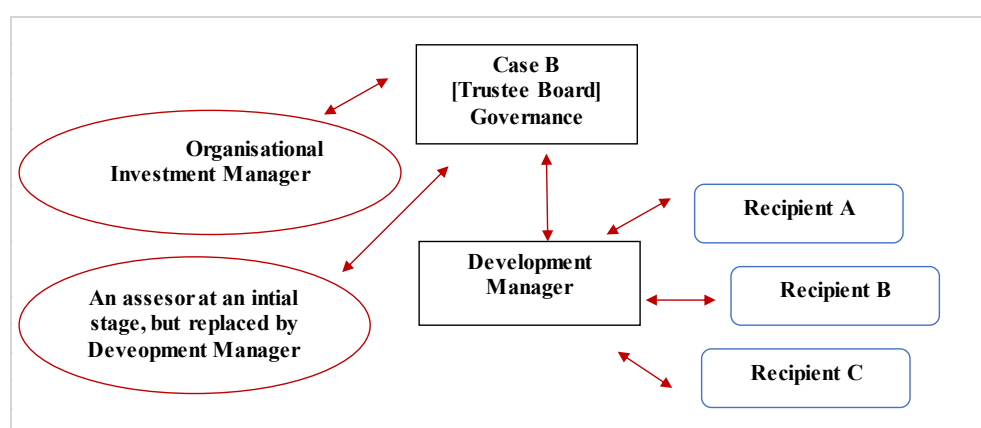
Secondly, in 2012, it narrowed its service provision to a more specific users' group affected by deprivation.

### 5.1.2 Methods of addressing social problems (strategy)

Strategic change has led to redefinition of service, targeting service areas, user groups and geographical areas. Further to the two main strategic changes detailed above, Case B has announced thematic specification of funding eligibility, including focused service groups, levels of deprivation, service quality, evidence- and strengths-based assessment, and active involvement of service users and carers. The design of this thematic focusing is intended to align with government strategy. Funding is made available in amounts from £3K to £20K for projects addressing the specified issues.

### 5.1.3 Governance and organisation structure

Diagram 5.1 illustrates Case B's structure in three levels: Board of Trustees, Development Manager (first and only staff member) and recipients. Evolving from domination by one major donor to governance by a board of representative members, the significance of the structural change is clear. Ultimately, the Trustees are accountable for decision-making and the direction of the organisation (governance). As regulated by OSCR, the Board meets four times a year to make final decisions on awards, based on the initial evaluation done by the Development Manager.



**Diagram 5.1 Case B: Organisational Structure (A, B, C = grant-holding organisations)**

Source: Developed by author

A financial sub-committee exercises duty of care of Case B's financial resources, overseeing investment matters. Investment itself is outsourced to an external investment company acting as an organisational investment manager to maximise Case B's capital gains.

Currently seven trustees are appointed for a period of three years with optional re-appointment for two more terms. Trustees are unpaid apart from travel expenses.

The mini-biographies on Case B's website suggest the skillsets and knowledge of the Trustees are primarily from the private sector, but matched and blended with the other two sectors. Table 5.1 shows professional orientation among the Trustees more specifically:

Thus:

- 57% of Trustees have a professional background in the private sector
- 43% in the third sector
- 29% have a mixed sector background.

**Table 5.1 Case B: Professional Orientation Display**

<b>Professional Orientation</b>	<b>Number of Representatives</b>	<b>Sector Orientation</b>
Financial and Asset Management/Investment; Manager/Corporate Finance Director; Corporate Lawyer; Director of a charitable trust; Consultant	4	Private Sector
Social Work	1	The Third Sector
Teacher/Educational Psychologist and Child Therapist	1	Public and the Third Sector (Mixed)
Chartered Accountant	1	The Third Sector and the Public Sector (Mixed)

Source: Adapted from the raw data by the Author

In April 2014, Case B changed from pure TP to a more hands-on involvement with recipients, including development work. As mentioned above, its first staff member was employed with a workload of four days and a job description focused on delivery of the change strategy. Table 5.2 summarises Case B's service focuses and strategy objectives.

**Table 5.2 Case B: Rational Trajectory of Model Design**

<b>Social Problem Identified</b>	<b>Strategy in Addressing Targeted Problem (Objectives)</b>	<b>Model Designed</b>
Children and families affected by deprivation (service users)	Specify service users' age range; involve guardians and carers	Project grant up to three years

Source: Developed by author according to the data

Given the size of the organisation, Case B has a relatively smaller sample size; see Table 5.3.

**Table 5.3 Coding of Informants**

<b>Title of Informants</b>	<b>Code</b>
Trustee Board	TBB1, TBB2, TBB3, TBB4, TBB5, TBB6
Development Manager	DMB7
Previous Funding Assessor	FAB8
Funding Recipients (CEOs/Business Development)	FRB9

Source: Developed by author

## **5.2 Illustration of emerging themes**

### **5.2.1 Motivation and value orientation**

Trustees TBB1, TBB2 and TBB3 were headhunted by an agency via public recruitment. All of them say that their motivation is to contribute to the charity (Case B), and are able to “bring management discipline related skills and knowledge” to the governance. This suggests both altruistic motives and rationalised thinking in leadership. For example, TBB2 had extensive working experience as a CEO in large charities. TBB1 brought knowledge of leadership and management from the private and third sectors. In addition, TBB1, TBB2, TBB3 and TBB4 also said that they felt their skills and knowledge well matched the needs of Case B. The arrival of TBB2 and TBB1 allowed Case B to reshape and unify its ethos according to their analysis of the skillset on the Trustee Board. For example,

“I think, [Case B] has always had a body of very able people as Trustees. And they are able people who have certain qualities but not necessarily because they were in line with the ethos of the organisation.” (TBB1)

“When I saw the advertisement in the paper, and read a little bit about them on the internet, I saw something where I could use my knowledge and experience to help... It did seem a very good match. That was why I was interested.” (TBB4)

However, their contribution of areas of knowledge is different: TBB4 is passionate about contributing his/her knowledge in children's welfare; TBB5 is keen on making more money for Case B by utilising investment skills derived from 25 years' experience in "making rich people richer"; additionally, TBB5 is motivated to seek early-intervention approaches to save public money.

"... and the reason for doing that was I managed then the high net individuals' investment, and I spent the last 25 years making rich people richer. So I think I should use some of my skills in the third sector, that sort of philosophy, how my family was brought up, you should look to do something if you had the benefit of achieving, then you should look to put something back. That was more than to make money for somebody else, more than for me." (TBB5)

"And again, one part of me says, as [someone] trained as an economist, the fewer people there are in deprivation and social support, the less tax I have to pay, or not just me but society. In addition, another part of me, then I would say, I have been extremely lucky, have four children, they have ended up living in a better society, there are less differences, and better balanced. So those are the motivations." (TBB5)

TBB6 holds slightly different views. Primarily from the private sector, but with compound skillsets from the private, public and third sectors, he/she is motivated by a challenging position in delivering strategic change.

TBB1 and TBB2 highlight the significance of utilising public recruitment, including of themselves, to fill skill gaps on the Board. Reflected by TBB4 and TBB6, and endorsed by TBB1, this has made a huge difference by drawing in skilled trustees, rather than relying on a circle of friends (as practised previously). Professional performance is evidently highly regarded, as a deliberate part of the reshaping of governance.

"... a number of trustees who are all kind of too alike, come from the similar background, private life, a lot of it has changed since, now we recruit our trustees from public advertisement, we have done a lot to professionalising the management of the board." (TBB1)

Looking back, TBB2 and TBB1 also said they had enjoyed leading the delivery of change as part of a team, although it was not easy. TBB2 (who was invited onto the Board as an observer prior to official appointment) had pointed out imbalanced board composition, as previously the

Board was predominately made up of people coming from a finance and investment background, while lacking expertise in social areas. Joining the Board allowed TBB2 to recruit TBB1 through a professional channel after the skillset auditing of the Board.

Aggregation of the interview data on motivations revealed the following patterns: altruism; compound knowledge and skillsets from multi-sectors; rationalised thinking for strategic change; blending impetus and skillset for change; increasing professional performance. It is evident that Case B has applied rationalised thinking for strategic change, resulting in strategic refocusing on a specifically targeted group in a delimited area.

Due to the nature of a trustee's unremunerated engagement, altruism appears as a prime motivational feature. However, increased professionalisation harnesses altruistic motives with a view to setting new agendas. Logically, data suggest that the mixture of professional skillsets, knowledge and background has also become a factor for change, implying negotiation for shared understanding and agreement.

“I was approached by an external consultant as I worked as a CEO for a big charity at the time. I suppose I could bring the leadership, management, and the understanding of the children issues, all sorts of stuff.” (TBB2)

As Table 5.4 indicates, the altruistic motivation of the Trustees is suggested by their unremunerated voluntary status. TBB4 indicates that the mixed-background Trustees have contributed to the design and delivery of the change strategy. Driven by impetus for change and supported by Trustees from both the private and the third sectors, changes are evident on three levels: 1) the external consultant started by identifying “change-makers” who understand change and can make changes via head-hunting. 2) Having recruited high calibre cross-sector individuals, analytical thinking was applied in terms of shaping the change agenda and deciding who could contribute to the changes. 3) Strengthened by recruiting TBB4 and TBB5 at different times, the team has been able to deliver a change agenda aimed at developing a new appropriate funding model. According to TBB1, TBB2 and TBB5, the most recent change is based on scientific evidence gathered from an external expert's presentation on child development.



**Table 5.4 Case B: Display of the line-by-line coding and axial coding**

<b>Behavioural Indicators (extracted from data evidence)</b>	<b>Sub-category</b>	<b>Emergent Core Themes</b>
Post-retirement desire to contribute knowledge as a way of “giving something back” (rooted in family philosophy of altruism)	Primarily oriented in altruism (value input)	Motivated by and for change, transitional change compounded with strategic focus on niche service group
Bringing management and leadership experience and understanding about service users’ issues; expert in service development issues with the targeted group; oriented in private sector; bringing combined knowledge from business and social care; implementing changes; being an investment expert	Motivated to bring change with specific cross-sector knowledge and skillsets	Narrowing of the geographical coverage; service users' age range
Charged with delivery strategy change; bringing management discipline; bringing lateral thinking from mixed sector discipline	Motivated to take a rationalised approach to change, to professionalise conduct, to deliver strategic changes (input)	Outcome-focused approach
Being a good skillset match and building capacity widely in the Board	Motivated to change Board composition, relating to strategic focus and fitness (strategic match input)	Matching skillsets and capacity building in leadership
Enjoyment (“fun”) of engaging in a project for change; invited by a consultant – approached by the consultant to deliver change strategy	Driven by impetus and skill-set for change (condition)	Strategic focus
Responding to public recruitment; selection through public recruitment	Increased public exposure through professional recruitment (consequence)	Professionalisation of Trustees

Source: Developed by author

The new model requires evidence-based outcomes. TBB2 commented that Trustees are motivated to see impact being made by the funded projects. In addition to professional competences, from an emotional perspective Trustees seem to have enjoyed the change process, which TBB1 and TBB4 indicated as a “fun” journey: applying or learning business expertise via institutional giving.

It is evident that there is a transitional shift for Case B moving from pure altruism to more rationalised funding. Although Trustees’ motivations are varied, there appears to be a strong impetus for change among the Board. Change is shown in the application of resources: for example, the Board has become professionalised, moving away from selecting trustees from a circle of friends towards public recruitment based on relevant skills and expertise. Hence, the

appointment of new trustees was the first step in strategic change. Case B's lawyer triggered this initial change; it had the knock-on effect and resulting in recruiting more new trustees bringing professional skills and knowledge. The death of the original sole donor has accelerated the change process.

### 5.2.2 Governance and decision-making

Among notable changes in board governance, the first was the method of recruiting trustees to the Board to fit its purposes and vision. Secondly, with the personnel changes on the Board, learning has become a priority: in particular, understanding third-sector need, cross-sector learning on how best to utilise resources for improved services. This has led to two strategic changes, resulting from learning and training delivered by external expertise. Thirdly, governance has changed accordingly. Evidence and knowledge are regarded highly, leading to expectation of Case B playing a development role in the sector, rather than remaining a distant grant-maker.

Focusing on project funding, the risk for Case B is low, although its funding term has shifted from 1 year to 3 or 5 years. In terms of financial accounting, risk is relatively lower than in VP and other types of financing.

Although no strategic alignment with government and other funders was discovered in Case B, according to the Chairperson, Trustee TBB1 and the Development Manager, widening strategic partnership has been on the development agenda. In particular, it was also mentioned by the previous assessor that Case B had intended to work with peers to conduct joint assessment. TBB1 and TBB3 echo the same views.

#### Improved professionalism

The development of improved professionalism involves marrying specialised knowledge with daring to challenge old-fashioned ideas and make changes. The majority of Case B's Trustees are oriented to the private sector with salient cross-sector characteristics. These appeared in four domains:

- 1) First, diverse experiences provide richness of knowledge and expertise; however, conflicts between the value orientations of different sectors can be a challenge. For example, a child physiologist needs to understand the necessity to shift to outcome measurement, while a trustee from an investment background needs to understand how quantifying a child's development is challenging.

“But I have to say, having been there for 3 years, I have found it extremely challenging and interesting. ... Part of that is because of the decision-making process.” (TBB2)

“Or they are very much tuned in to difficulties in finance. I go in and pick up and I am able to give an opinion on the kind of work that the project is doing, as might affect what outcomes might be, whether or not the children or the family will be benefiting. We marry up the experiences, given good decision-making.” ([TBB3])

Trustees are required to listen and learn from each other. The learning process helped Trustees to understand the importance of focusing service provision, hence the two strategic changes in Case B’s funding policy.

2) Respondents indicate multi-faceted learning occurs through the funding decision-making process. The need to develop “a set of criteria” and how to set conditions have become a central point of argument. Tensions are seen in the process dealing with grant allocation and social needs. However, TBB2 informed the researcher that whenever conflict occurs, priority is always given to the service user. Since the formation of the new Board of Trustees, field visits are encouraged as a way to understanding projects and service users’ needs. Regular training was outsourced and delivered by external expertise, and the new knowledge has become a trigger for change.

3) At the communication level, respondents demonstrated their willingness to “listen and discuss” in order to accept or discover new perspectives:

“... I know very little about the finance and investment of that kind of thing. I do know a lot about families and the situations and those experiences, so I found it very interesting to listen and discuss. Because often other people would see things I don't see.” (TBB4)

4) The data reveals another interesting point. Although the Trustees highlighted the importance of the monetary value of an investment pertaining to sustainability, if a project demonstrates absolute need among service users, it can be prioritised for support. This suggests Case B’s fundamental values lie in the role of being a helper:

“So on the one hand, the finance people would say, ehmm, it is not a good bet. On the other hand, we would say, it is very important for these children and family who have experienced a lot of loss in their life to have proper experience ending something. In

order to do that, that project would need money to finish off for another 3 or 6 months.”  
(TBB2)

Overall, starting from the desire to define a “set of criteria”, this process has become an interesting change experience for the Trustee Board. Developing professionalism, such as being a good listener in the communication process, has contributed positively to the decision making. Learning has also played a vital role in the change process as the Trustee Board is highly alert not only to the need for cross-sector fertilisation of ideas, but also to making sure resources are employed to fulfil the learning.

Study of responses from the whole Board, demonstrates a distinctive pattern of how they marry up their mixed experiences with high prioritisation of service users. Seeking long-term financial sustainability is less regarded than service users’ needs, reflecting the Trustees’ social, rather than financial, background. This has demonstrated strong collective consensus on centrally agreed service conditions and criteria; however, polarised views are also clearly present between Trustees from the social and financial sectors.

#### Project selection

As discussed earlier, Case B has shifted from very broad to much narrower geographic and demographic specification of service. This requires scientific evidence based decision-making, in contrast to previous emotion-driven decisions. As revealed by TBB1, TBB2 and TBB5, scientific evidence provides the Trustee Board with insight on how to apply early intervention, regarded as a cost-effective way of benefiting service users.

Similarly to Case A, Case B has no specific written criteria for project selection, which is therefore relatively subjective. Study of Case B’s published guidelines reveals the following priorities: a) eligibility, b) geographical coverage, c) interpretation of “deprivation”, and d) specific interest to the funder,

Case B values “outcomes and targets” in assessing eligibility. Their definition of “outcome” corresponds with expected “results or effects” of action taken by grant-holders. “Targets” are set in terms of numbers of beneficiaries of service activities. Case B seeks change and effect to arise from projects that it funds.

Although in theory guidance is given on using the principle of “SMART” (Specific, Measurable, Attainable, Relevant, and Time-bound) to articulate outcomes, in reality this

appeared to have been problematic. DMB7 felt that the Board pushed Case B to change funding policy, while leaving it unclear to applicants how to describe and measure outcomes. Although training on how to articulate social outcome is available, due to pressures of time hardly anyone has taken it. To manage the formidable challenges to measuring outcome, Case B has been forced to co-write funding applications with applicants, in particular on how to define innovation and measure social outcomes. The external assessor has reflected on this as being a “daunting experience”.

In designing its funding model Case B highlights the importance of addressing service gaps. Case B’s interest in capacity building is related to service provision. TBB2 indicates that its model was purpose-made to complement big philanthropic funders’ services to the sector:

“Our model has worked really well. Obviously, with the Lloyds TSB Foundation, and other types of big organisation, they have brought people together to think about changes. Which said, we won’t fund you for ever, but we are trying to help you to find alternatives.” (TBB2)

The hope is that the funding will provide the third sector with an opportunity to explore alternative approaches for social problem solving.

Whereas TBB3 and TBB4 indicated that Case B is interested in innovative services without duplication in the same service areas, TBB1 expressed the importance of scale-up or duplicating the funded project in different areas.

Clearly, Case B acts for service-users, as reflected in TBB4’s answer:

“... investing in the project [is] for helping [service users], otherwise we wouldn't have existed.” (TBB4)

As further highlighted by TBB3, priority is given to families in crisis: “Families experiencing deprivation or in crisis will be given priority” [TBB3] In particular, interaction between service users and their carers are esteemed as a means to engage emotional and physical development. That is to say, Case B cares about quality in engaging with service users. In TBB2’s responses the notion of “value-based” appeared prominently; asked the meaning of “value-based”, TBB2 said it was “about looking at every [service user and their carers’] potential and to support that potential and opportunities” (TBB2).

## Funding pattern

A study of its investment in eight applicants in 2014 and three successful funding applications in 2013 found that Case B is interested in “engaging in multi-player cross-generational work in the community”, “outdoor activities with fun elements” and “fund oriented outcome measures in the funding process”(Sample of the approved applicants in April 2014). The data suggest that project-funding targets are for “service” only, not for core staffing or development costs. This demonstrates the intention to provide funding for “alternative approaches” to addressing social problems.

In addition, study of documents pertaining to the successful applicants suggests that Case B intends to invest in well-established organisations. In terms of organisational size, the incomes of the applicant organisations vary from £38K up to £1.76 million (extracted from the OSCR Annual Accounts 2013). Analysis suggests that higher-income applicants have received higher amounts of funding. Most of the funding is used in the development or growth of a project. Although investment in new services is available and expected, study of the most recent cohort reveals that no grants were awarded to “start-up” organisations. TBB4’s explanation for this was that since start-ups do not have a financial record to demonstrate past performance, no data were available for assessment.

To implement strategic change, TBB3 comments that changes such as outcome measuring, have resulted in better quality funding applications. Whether better funding applications lead to better performance and increased outcomes may be a different matter. Evidently, Case B has demonstrated change not only in the process but also in the outcome.

For example, as TBB1 and TBB2 indicated, monitoring will feed into the re-design process for improvement of the next funding model. An apparent case is the appointment of the Development Manager with a changed role at the operational level. Various informants provide evidence on organisational development. For example, TBB4 highlights the importance of meeting legal requirements and bringing understanding to the financial aspect for the charity.

“Well. [laughs] The big thing is the growing up, but nowadays, you have to have things to meet the compliance and requirement for a registered charity. For example, you need an accountant to look into your finance.” (TBB4)

Case B is mainly interested in using its money to improve direct services, according to funding-recipient FRB9. Echoed by TBB2, in assessing eligibility for funding Case B focuses on areas

increasing direct services only. Where tensions arise, TBB4 clarifies that Case B prioritises service-users need over financial sustainability. Its comments are in accordant with funding recipient's comments.

“Money (we have received) is used to continue the support for the family worker, the new programme we have developed.” (FRB9)

“On the whole, we don't supply core funding, which would be for premises, those kind of things. ... We will fund for staff and for the services. (TBB2)

“Even for the project that can't be sustained, we might, in fact, fund them to finish and give them the money they would need for a proper ending. Because many of the [service users] are experiencing loss if their service disappeared. They don't want the project without completion.” (TBB4)

Other evidence from the data of Case B's orientation towards a “helping” role includes the indication in the appointment of the Development Manager of Case B's intention to move from being a grant administrator to being a development agent in the third sector. Case B wrestles between innovation and basic service provision. Although innovation is highly regarded, in practice the children's needs and equal access to services remain the top priority.

Again, consideration of children's access to quality services appears repeatedly in TBB3's interview: for example, professional training for carers and staff, including volunteers, is among the priorities. According to TBB3, project sustainability is in fact regarded as less important in cases where one is facing a service need or family crisis.

Although innovation is regarded highly, the definition of the term and how to assess a project's innovativeness has, according to TBB3 and TBB4, been unclear. There is a lack of universal criteria to evaluate whether a submitted project is truly innovative. In actual operation, it is determined by common sense and the common knowledge of the assessors. The Trustees are generally aware that innovation may be a contested concept: when there were conflicts in the decision-making between innovativeness and the children's needs, the priorities were always given to the latter, according to TBB3. TBB4 reflects that evaluating the level of innovation has been challenging for assessors:

“We don't want to see the same project actually happening around the same street. If a project has its operation in Edinburgh but not in East Ayrshire, we would consider

that new as well. ... We are looking for projects not duplicated around the corner. ... Well, it is hard to define innovation. It means different things to different people. We would look at the areas of deprivation. That is our priority and the criteria that all the families have to be in deprived areas. All our areas have to be deprived areas.” (TBB4)

Thus the data suggest that Case B’s funding priorities are the needs of service users and their carers and improved provision of or access to services provisions or improved service. High quality assurance is especially esteemed in the development of carers’ professional skills and knowledge.

### 5.2.3 The engagement process

#### Operations

Originally intending merely to play an administrative funding role, Case B has been pushed to increase hands-on engagement. The appointment of the Development Manager, where previously there was no staff apart from a seasonally contracted External Funding Assessor, is the result of ongoing learning, reflecting willingness to understand the needs of the sector as well as to help applicants to measure outcomes.<sup>20</sup> It is also a response to the time constraints on an organisation relying hitherto relying on volunteer efforts alone.

Trustee TBB2 and two operational-level staff members shared concerns over time and capacity constraints, given the Trustees’ voluntary status on the Board and the Development Manager’s four-day week. On lack of time as a hindrance to development, DMB7 said, “You cannot do too much with one member of staff”. This suggests a gap between aspirations and delivery, and TBB2 highlights the importance for trustees to understand what is manageable, to understand the additional resources and needs required, and specifically to listen to the Development Manager’s advice and recommendations carefully. There is a suggestion that additional resources might be committed to the further development and delivery of strategic change.

According to the data, when assessors or decision-makers are not certain about an organisation, visits are encouraged to gather more evidence in the field. Normally, visits are done in pairs: one visitor being from a finance background, the other having an understanding of the social issues, service users’ needs and their carers’ development.

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<sup>20</sup> From conversation with the Development Manager [not recorded but noted in the meeting memo].



Although visits are an emerging feature in Case B, TBB2 confessed that time is a problem. While the appetite to have greater engagement with the third-sector organisations is clear, for a relatively small organisation it is rather challenging. As explained by TBB2 and TBB4, the voluntary capacity of the Trustees, most of whom have another full-time job (one being physically based in France) naturally constrains delivery. Even with the appointment of the Development Manager, both s/he and the Trustee Board indicated that time is limiting Case B's ambitions.

With Case B's change to longer-term grant provision, Trustees are obliged to gather more information and understanding of funded projects. The Board believes that a developed understanding of an applicant's service delivery can help them to assess the organisation's ability to complete the project successfully. As echoed by respondent TBB2,

“there are really a willingness and desire to do some more visits. Because it also helps to inform us, it is not a one-way process. It is not about going to see how they are doing it, but it is also informing Trustees about all sorts of things and motivating us to see if there are any differences that can be made. I think it is dead important for the Trustees to stay linked to what we are actually doing. So capacity is the main issue there, rather than anything else.”

TBB2 indicates that Case B intends to continue increasing its funding terms from one to three years to up to five. When asked whether open-ended or even longer-term grants will be provided, however, the answer is no. TBB2 says that it takes more than one year to test alternative approaches but believes that a project lasting more than five years might cause organisational inertia:

“I do think moving towards less grant-holders but bigger grants; I think three years becomes very standard at the moment, I think it is a good way to go. I don't think we would want it to have a totally open-ended grant. Because the things to be changed, and the way people to deliver the services, need to be re-designed periodically. We need to learn from changes, so we need to ensure, I am hesitant to do that [bigger grant]; if you do, that can be a risk. If you do the same, you do more of the same but actually you need to do something differently.” (TBB2).

As discussed, although compulsory, self-evaluated and thereby subjective outcome measuring by the grant-recipients appears as a problematic process seems being problematic. Hence, as

TBB3 says, “[Case B] is very demanding on the outcomes.... One of the things we might do, we always look at the outcomes. We try to encourage the people to be as specific as possible in their outcomes.”

TBB4 and DMB7 suggest that eventually grant-holders will be required to define outcome measures for their own projects. When asked whether there are any central performance measure metrics for Case B overall, TBB1 and TBB2 suggested it is in the process of development and not quite in place yet. In practice, due to time constraints, the data show that the previous Case B assessor had already begun co-writing outcome measures with applicants. This proves a daunting experience due to lack of specification (and the inevitable difficulty of specification). Meanwhile grant-holder FRB9 expressed unwillingness to produce what they see as more tedious documentation, again due to the time pressures.

Outcome measuring has pushed the funder and fund-recipients to work closely together. Requests from applicants to clarify grant policy definitions is what led to the co-writing of applications: specifically, the funding assessor and Development Manager virtually re-writes and comments on the funding application before its submission.

The data suggest that interaction between Case B and its applicants/grant-holders is phased. The presentation below illustrates its three-stage involvement: pre-application; funding assessment and agreement; project monitoring and exit.

Table 5.5 (a, b) shows the shift in Case B’s relationship with its funding recipients from arm’s-length to deep engagement. The data suggest the following characteristic changes:

- Setting change strategy and allocating resources to deliver change
- Requiring outcome measuring; consequent development of monitoring system and relationship with recipients
- Moving away from cheque-writing towards agency for development
- Demonstrating willingness to be an intelligent funder with more reflective thought and learning
- Becoming interested in resource leveraging and responsible investment

**Table 5.5a Case B: Funder–Recipient Relationship Change Dimension – Coding**

Respondent	Quotation from Data	Open Coding	Axial Coding	Integrative Coding (memo notes and dimensional profiles)
TBB1	There is an online application, which fits with our strategy... The ICT [computer and information] system immediately weeds out a whole number of people who used to write to us... millions [of] miles away from where our strategic focus is... Some best project in the world, but they are not for us.	Strategic focus on targeted service group	Strategic change delivery	Becoming an engaged and intelligent funder through responsible giving; outcome measures; resource leveraging and strategic change
TBB1	People want to apply to us; they have to ... make their judgement whether their work fits to ours. If there is a fit, then we will make an assessment, if it does not it won't go through the process.	Strategic fitness		
TBB1	As I said to you, the easiest thing is to give away money.... However, what good could this money do? So we have an application process, we have insisted that applicants give us at least two but preferably three outcomes for their work.	Responsible giving by measuring outcomes	Outcome measurement through responsible giving and rigorous reporting systems	
TBB4	They are required to report to us in terms of how well they have done and report to us against the outcomes.	Developing rigorous reporting systems		
TBB2	If they are completely failing to meet any of the targets, they set their own targets, if they are completing failing to deliver, they will not to get the cheque for year 2, until they have sorted them out.	Grant release bound to the outcome delivery		
TBB1	We are happy to help in the process. We are not just pressing the button, that is an anniversary, and to give a, b, c to charity, write the cheque and off you go.	Willingness to engage in the process beyond cheque-writing	Process engagement rather than cheque-writing	
TBB1	If they have not performed well, they need to tell us what the problem is, and how they are going to fix it. If they don't, they are not going to get the money.	Money release dependent on project performance review	Outcome measurement for responsible giving	
TBB2	The next stage, you have to begin to record your success and failure (outcome delivery).... That needs analysis. And a detailed analysis. That would sharpen our decision-making. It will help us to make the right decision because I have always believed, as a Trustee, that we have a duty to ensure our money is properly spent.	Intelligent funding based on analysis of outcome delivery data	Becoming an intelligent funder	

**Table 5.5b Case B: Funder–Recipient Relationship Change Dimension – Coding (Cont.)**

Respondent	Quotation from Data	Open Coding	Axial Coding	Integrative Coding (memo notes and dimensional profiles)
TBB1	Far too many organisations set their jobs as just giving money away. You need to follow through; you need to learn from your mistakes. Otherwise, you will keep making the same mistakes.	Engaged funder, learning from mistakes	Becoming an engaged and reflective funder	Becoming an engaged and intelligent funder through responsible giving; outcome measures; resource leveraging and strategic change
TBB1	We still have geographical balance. [Say there are] two project [applications]: one is in [a rich neighbourhood, one in [a deprived one]. We would give the money to the deprived area.	Geographical cover balance and prioritising service for deprived areas	Balancing priorities	
TBB5	We are now more rigorous in terms of giving money. However, obviously, the strategy has [been] changed.	Strategic change towards more rigorous funding	Strategic change delivery	
TBB2	Now we have an opportunity to design the funding model, specifically [to] look at the evaluation and the outcomes.		Responsible giving and outcome measurement	
TBB4	We want to maximise the difference we made through the funds.	Maximising the effect	Resources leveraging	
TBB3	[Case B] is very demanding on the outcomes.	Stringent outcome requirements	Outcome measuring	

Source: Developed by author

#### 5.2.4 Entrepreneurial investment approaches

Resource leveraging emerged in the process of Case B's shift towards engaged funding: for example, Case B plans to work with peer funders. With grant-holder FRB9 reporting that having more than 30 funders to deal with on a yearly basis has been challenging, Trustees TBB1, TBB2 and TBB4 are aware of grant-holders' duplication of time and effort on applying to various funders. This leads the three trustees to hope for a more joined-up funding application process. No action has been taken yet and whether it is going to be developed by the Development Manager remains uncertain, but the need is noted and well received by Case B Trustees.

TBB2 and TBB4 expressed their aspiration to work with peer funders to share monitoring reports. TBB5, as an investment expert, is keen to develop a computer-assisted monitoring

system, potentially to be provided as a service to peer funders. S/he believes that lack of a proper monitoring system has been a universally under-developed area across philanthropic funders, in particular among small and medium-sized ones.

On the other hand, TBB1 stressed that his/her vision of cross-board collaboration among philanthropic funders was generally shared on the Board. TBB2 echoed the point, saying that the current rationale for the grant distribution was deliberately designed to complement bigger funders, such as [a bank], not to duplicate their services and efforts.

TBB5 said that although efforts were being made to engage with the Scottish Government, no engagement was established, which might be, TBB5 thought, due to the size of the organisation. However, TBB2 and TBB4 said that their role in the social sector actually enabled them to have an influence on the Scottish agenda for children's services; in fact, one of them sits on the parliamentary cross-party group dealing with child-related issues.

Resource marshalling concerns the level of resources being generated and redistributed by Case B. The theme-based exploratory analysis has identified three areas of concern: financial resources, which are the core aspect of this type of organisation; human resources; and ICT resources, for the compulsory funding application portal.

With regard to financial resources, the majority of responses from the Trustees suggested that investment is doing well and brings a steady income to the organisation: in 2009, more than £6 million.

As TBB5 (Trustee) said: "We have been lucky, we don't have any material difficulties to confront". TBB3 has led change in the appointment of an external investment consultancy company to manage investment money. Indeed, according to TBB3, income has increased by 25% since the change to a new investment manager.

As TBB5 reflected, upon starting the new post, immediately the first task conducted involved checking the investment effectiveness. Thus, investment management was identified as an issue needing to be sorted out.

TBB5 and TBB3 indicated that their professional knowledge in investment was brought to bear on this. TBB5 believes that any business requires maximised resources, and charities are no different: growing the income stream through portfolio investment was decided on as a top priority at this time. TBB3 said that his/her specific knowledge in finance and investment

allowed the Board to monitor investment performance better. TBB5 also believes that the Trustees hold Case B's funds on behalf of Scottish service users and is thus morally obliged to maximise value. "In my opinion, in fact, we are holding Scottish service users' money; the more we get, the more causes we could grant." (TBB5). Case B's increased utilisation of expert input demonstrates its commitment to professionalisation. In fact, the increased investment has resulted from the change of external investment company.

"I have applied investment technology, knowledge and skills into our portfolio. Basically, the fund has a portfolio managed by another investment manager, and I don't think the way they have managed was appropriate and suitable. ... Fundamentally I try to explain to them, we have a surplus of the assets, and we should allocate those to the most efficient means of earning income that is sustainable." (TBB5)

"Well, one of the things: we have changed investment manager. But it wasn't because we won't get a good return, [but] because they are not accountable. ... They are in the process of doing that and looking for somebody new. ... So we sought a new investor. I think also the people we are on, the Trustees at the time, there are lots of financial expertise. They are actually able to say, that company is not working with us as they could be. They have learnt a bit." (TBB4)

Nevertheless, the process of replacing the approved external investment manager was not easy. TBB5 shared, firstly, that Trustees were asked to rethink [value,] and re-focus on the purpose of making money rather than making money for its own sake. An investment evaluation report was prepared to assess the snags. It showed the need to tackle underperforming investment. However, some "conventional" Trustees disagreed. In their view "making money" was perceived as "capitalist" (i.e. "bad") behaviour, unacceptable for a philanthropic funder:

"I had to use tactics and I took them out for lunch, just like the way you persuade your friends and family really." (TBB5)

Gradually, the concept came to be understood and the notion of change was accepted. TBB4, as a professional coming from a purely social background, reflected this as a good learning journey towards acquiring financial and investment knowledge. For example:

"But I don't always understand it [investment], why [laugh] .... I understand it better now than I did. That has been my education. That has been good for me" (TBB4).

Meanwhile, along with the change of external investment company, an investment monitoring system was set up, different from the former accounting system. An investment plan was set up to identify ethical investment objectives, not in conflict with philanthropic giving. For example:

“In terms of financial resources, our investment was all outsourced to the external investment manager. He has clearly termed remits in terms of what he is expected to deliver, he has clear terms in terms of what sort of thing we would not want him to invest in. So in terms of the financial marshalling, well fundamentally, not only managed by the professional body but also checked up on by our financial committee on the Board, who know more about those things than I do, who also meet once a quarter, and also interview the investment manager. The investment was made with the best financial resources.” (TBB1)

“They have learnt a bit. The next people [investment manager/company] that come along, we are very clear what we actually want them to do. Someone from that company comes to each meeting and goes through investment and helps.” (TBB4)

“We have to ensure that the way we are investing our money is ethical [and] will give us the best return possible. So we employ an investment manager. We also insist, and we give them ... a plan of what we want actually to achieve. They then are accountable to us.” (TBB4)

According to Trustee TBB4, the Board is full of members who are “*financial know-how*” experts, which enhances its capacity to assess investment performance. In addition, a financial sub-committee was designated to conduct a quarterly review, then to produce a finance and investment report. The committee therefore makes financial recommendations and present financial capacity of grant giving to the Board.

Resource dependency refers to the resource relationship between Case B and its grantees. In the notion of a resource relationship, resource supply and demand affect each other. Resources include grants, time, information, knowledge, expertise and human resources.

The first resource tension shows in the data on funding policy. Although Case B was born out of a desire to help service users who are in need, funding priorities must be decided on. There is a focus on “quality” applicants. One Trustee argues that if pushed to emphasise high quality, there may be a tension around awarding to high-quality projects, where the actual need being

addressed may not be as great as that of a lower-quality application. This Trustee finds this emotionally difficult, because the Board is ultimately accountable for and ministering someone else's money. However, s/he indicates, when it comes to comparing cases on their innovation, the "child's need" is always the top priority. It is unclear how to solve this intrinsic conundrum.

"It is very difficult when you are faced with the need of the project, with who applied for the funding, to say no. We can't say yes to everybody." (TBB4)

The second tension shows in Case B's role in deciding "how much to give and how much to spend". As a financial conduit, the funder's concern with maximising finance is seen in the new appointment of an independent company act as the external funding investment manager responsible for the overall capital funds.

One Trustee says that members of the Board specialised in finance and investment supported the decision:

"We have separated our system of our investment accounting. We also have an accountant to look after our accounts, and how much we have spent and how much we have to give. We have a choice." (TBB2)

"We give money from our income. So the income we earned on our investment we give out, but we have a choice: if we come up against a project that we want to give more money to over a longer time of period, but we don't have enough income, we can choose to use our capital. But obviously if you do that, your investments are lower, but that is an option we have. The capital is 14 million pounds [annual basis]." (TBB1)

On the other hand, the data show that cross-sector knowledge is highly regarded by the Trustee Board. Learning has been highly prioritised and resourced. For example, regular external training sessions are provided to increase understanding about the changing environments Case B is operating in. In fact, one strategic change subsequently has resulted from a training on understanding services users' development. Accordingly, to all the respondents from the Trustee Board, more resources will be placed to research, training and administration, to fit in with the plan of expansion. Due to its original organisational context, however, Case B is constantly aware of the need to cut down on administrative costs in order to provide more support to service users:



“Now they [Trustees] are talking about expanding, they want to spend more money on research and training and admin, but it is always a tension.” (TBB3)

The benefits of using ICT to capture data and information for informed decision-making has been demonstrated. A dual system has shown how to deal with the “how much to spend and how much to give” dichotomy, a separate system informing strategy choice based on the accountant’s report and advice, with another one from the investment manager/company to show income. Expansion of spending suggests the implications of field learning by Trustees. In particular, the increasing use of research and training suggests that Case B has been developing its own capacity to understand its role and to make effective funding policy.

A third tension about resources lies in the funding model. In order to seek an effective service delivery model that can achieve the goals expected by Case B, in addition to requiring outcome measurement it is essential for Case B to understand the evolving needs of the grantees. For that, respondents suggest multi-year funding will be considered up to five years. The web information shows that Case B directs grantees to the relevant funding bodies by providing resource links. The respondents have also indicated that seeking collaboration with peer trusts is being developed. This is caused both by the pressure from peer funders and the changing needs of grantees.

Case B constantly balances its resources not only in income receipts but also in the funding distribution process. In the process to develop accountability for its grant-recipients, Case B has gradually changed its role to be a developmental agent for the third sector. When facing a dilemma, the actions deployed suggest the funding policy is not static but evolving dynamically to justify the relationship with its targeted grantees. At the same time, Case B is aware of its operating environment: the data show its system is linked to government policy, and it is willing to engage with other funders.

### Innovation and risk-taking

Different people in Case B interpret innovation differently. It seems Trustees from a financial background have a tendency to take higher risks; however, this is balanced by Trustees from social backgrounds. Although innovation has been highlighted by Trustees at interview and is mentioned in the documentation, there is no central guideline to articulate or define their organisational perception on innovation. However, Trustee TBB2 indicates that innovation means new services or service-providing to new areas or providing services to a new group of

users: for example, expanding service within deprived areas, providing services to support fathers-to-be, or improving the quality of service. The funding assessor refers to innovation as new ways of engagement with service users, i.e. service users and their carers. Case B's concern ultimately lies in service innovation at individual service-users level: it is not interested in grant-holders' business models or other types of innovation relating to the overall capacity of grant-holders.

#### 5.2.5 Exit strategy

Exit strategy refers to the project completion point. The data indicate that Case B intends to develop an open communication loop, which allows feedback into the next stage of project re-design. According to the funding agreement policy, the intention is for Case B to terminate its relationship with fundees at the expiry of the short-term funding, unless continued funding has been arranged. The data suggested that multi-year funding is now implemented. From its previous position of short-term interest, Case B has been moving incrementally to fund longer-term projects but with no intention of providing funding beyond five years, and no interest in providing loan finance. Evaluation and outcome measurement appear to have been challenging for Case B.

Case B's strategic changes are seen, as shown above, as "theme-focused" and "outcome-based." With implementation of the strategic shifts, gaps have emerged on two accounts. Inadequate staff and time resources to support the change strategy have resulted in contradictory motives in terms of saving money on administrative costs. TBB5 Commented that, although with a four hours' increase, they still felt very stressed operating within limited working hours:

"And my Trustees have been very flexible. Working 20 hours a week, when I started I worked a maximum hours of 16. Now it varies very much because it goes up and down. And now I am visiting every single project" (TBB5).

With the time needed to communicate and develop mutual understanding of change, the need for it and the implications, TBB5 feels stretched by the task of multiple field visits coming on top of the assessment process: "What we want to achieve as [Case B] is what the best for [service users] is. So they [Trustees] have all these meetings, hehehe..." (TBB2). In addition, a grantee respondent (FRB9) indicates lack of time to attend training sessions to embrace outcome assurance. The limits are not purely monetary.

Significant action was taken in March 2014, augmenting human resources for implementation of the new policies. The appointment of the Development Manager illustrates that the purpose is to bridge gaps in policy implementation by linking grantees and the Trustee Board. Its significant change indicates its motivational shift from being pure ‘altruism’ to be a responsible funder.

Secondly, there is an apparent lack in terms of a system to support outcome measurement. Although Trustees attempt to hedge their bets using interim reports and monitoring controls, actual measurement of implementation is based on trust. TBB2 suggests that a learning process is used as an effective approach to understand service users’ needs and explore ways of measuring outcomes:

“So, for example, we visited, we talked about it. Some people might have one opinion, usually we gathered the information and we do come to a consensus. The full consensus in the end, somebody has to give in. We might in fact say, this organisation will have funding for three years. We might have questions; we might give for one year and wait for their feedback and annual report before we decide if we will give them more. I suppose we are hedging our bets in some ways.” (TBB4)

“We want to find how you actually measure that, the effectiveness of the project. And again, we would take that into consideration. But in the end, it is a case of trying to come to some kind of consensus. Often we based it on trust.” (TBB5)

“I think some of the Trustees are still feeling it is being too specific, we shouldn’t be required to be prescriptive; we should be more open to things. But some other trustees, they don’t. We have Trustees from different fields.... We have investment experts; we have the ones who are experts in early years.” (TBB2)

The data, thus, suggest incremental augmentation of resources to implement change policy, illustrating a trajectory of exploration and exploitation towards legitimacy as effective grant-giver.

### **5.3 Summary of key findings**

To conclude, the findings suggest that the value orientation of Case B is dichotomous, as shown in its pattern of balancing along the spectrum from altruism and empathy to responsibility and rationality, illustrated in Table 5.6.

Change has taken place in three areas: first, procedural change refocusing on service user groups; second, structural change to implement the outcome-focused approach; third, personnel change – appointment of the Development Manager. These three changes, manifest Case B role-change transition from “grant administrator” to “development agent”. Through this development engagement, it is envisaged that Case B will explore new methods of measuring change in service users’ development and understanding the needs of grantees to exploit opportunities in order to accomplish desired goals. Development of collaboration is also shown, with Case B exploiting opportunities to maximise resources by working together with peer funders.

**Table 5.6 Case B Funding Model Conceptual Characteristics**

Source (actors)	Motivations	Funding decision-making	Process	Outcome	Change
Board of Trustees	Altruism, responsible giving, accountability, outcome measuring	Equality, quality	Hands-off, advisory, moving to project visits	Incremental change	Personnel, structural and procedural
Assessor	Outcome measuring	Equality, quality	Advice, clarification, co-writing applications	Shift to development agency	Changes seen in grant-recipients
Grant-recipients	Altruism	New services	Straightforward, good with online application	Funding human resource for new service delivery	N.A.
Anonymous applications	Altruism, responsible giving	N.A.	N.A.	N.A.	N.A.
Secondary sources: documents	Altruism, responsible giving	N.A.	N.A.	N.A.	N.A.
<b>Case B Funding Model Characteristics</b>					
Value	Altruism and responsible giving – service user oriented.				
Funding terms	Short to medium-term, project-focused, tendency toward bigger and longer-term grants – yearly basis: up to 3 years with intention to extend up to 5-year maximum length.				
Funding priorities	Deprived area service; services for specific age group.				
Funding pattern	Development of working in single-issue area; fewer organisations with longer and bigger focus for new services, new approaches, and new areas of service expansion; not for start-ups.				
Exit	Relationships terminate on project completion; interested not in sustainability but timeous service-delivery meeting needs.				

Source: Developed by author

# Chapter Six: Case Study C – Mixed Grant and Loan Investment

## 6.1 Introduction to Case C

Case C represents funding awarded as a mixed grant and loan investment package. The package is made up of a fixed percentage of non-repayable grants and repayable business loans. Case C was established as a partnership fund by public endowment and private funder with more than £1.5 million in its endowment trust fund. Case C carries out an administrative role in funding distribution through an intermediary non-profit organisation. The data presentation follows the same thematic order as in Cases A and B.

**Table 6.1 Informants associated to Case C**

Informants	Code
Board of Directors/Trustees	CBT1, CBT2
Senior Management	CSM3
Operational Management	COM4
Leaders of applicant organisations (funding recipients)	CCAlpha5, CCBeta6
Donors/Philanthropists/Advisors	CDP7, CDP8, CDP9
Observations at internal meeting and decision panel	CO10
Occasions and events attended	CO11

Source: Developed by author

Case C has expressed its intention in its business plan of using its funding model as a “financing” intervention vehicle for empowering communities and addressing social issues, with two objectives. The first is to develop long-term planning capacities, “long-term” denoting a period of at least ten years of community development. The second is to develop community ownership of local assets. Meanwhile, a learning network has been created to capture both the failures and the successes in the development process. Case C targets those disadvantaged local authorities as eligible service coverage areas. Its funding model is in alignment with the funding of the regeneration scheme in urban development and community transformation launched by the Scottish Government. Table 6.1 illustrates the informants associated with Case C.

### 6.1.1 Aims and objectives

Case C's original business plan states that its ambition and motivation is to address deep-rooted community social exclusion issues and to inject resources for the community to invest in physical regeneration. For that reason, Case C is driven to pursue new approaches in addressing these pressing challenges and to provide tools for community empowerment. Case C's objectives suggest that the direct investments are to be distributed: a) to anchor community organisation; b) to empower local people to take control and design their own services; and c) to shape the well-being of the community in urban areas. Strategically, community alliance partnerships are sought with a view to increasing impact, pooling expertise and building up a profile, stimulating innovation and good practice. In essence, this can be captured in the key features of fostering equality through partnership, empowerment and sustainable development.

### 6.1.2 Methods of addressing social problems (strategy)

Case C has identified urban regeneration as a focus of its service in order to address challenging social issues. Case C believes that the cause of these social issues is a lack of sufficient resources and funding for long-term planning. Without such resources, communities are neither able to invest in nor to build up community physical infrastructure, let alone own their own physical assets. Compared with private sector investment, access to the appropriate capital appears to be a barrier to this. Case C thinks that community ownership and control of its own resources would be crucial to empower community-oriented leadership and develop more services.

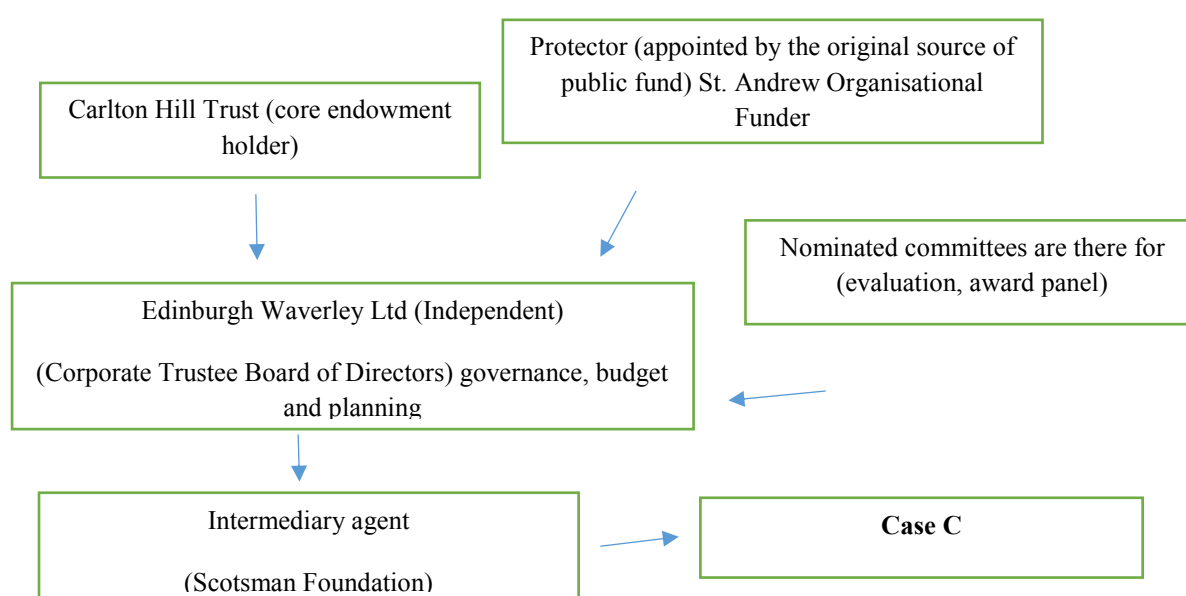
Case C, as typified by its mixed financing, is regarded as an innovative model. The concept is to provide community-oriented organisations with a stepping-stone to increasing their financial capacities. Giving a certain percentage of the grant would prepare the funding-recipients to grow basic capacity and get ready to start the change process. The business loan might provide them with a chance to grow a larger capacity to implement a change plan or a new business model. At the same time, the loan finance holds the applicants accountable.

Case C has also identified unequal access to finance for third-sector organisations. Lacking financial access has been identified as a constraint on sectoral growth and community regeneration development. As part of its strategic partnership development, Case C has formally invited Case D to be the assessment partner for loan applications, given their

knowledge of and expertise in business loans in this sector. Case C regards sustainable development highly, equally in the areas of finance, the environment and social development.

### 6.1.3 Governance and organisation structure

Case C was launched in June 2012. Its creation was based on a consortium structure, demonstrated in Diagram 6.1, i.e. one of corporate governance. The corporate structure shown below sets out the new relationships among the partnership organisations involved. The legal entity, a Scottish independent trust (pseudonym: Carlton Hill Trust), holds its endowment from a public funder. Carlton Hill Trust aims to develop disadvantaged communities to become more resilient, both socially and economically.



**Diagram 6.1 Case C: The Organisational Structure (Corporate-Style)**

Source: Developed by author and adapted from original funding application (with pseudonyms)

The resilience is defined in their working document as lying in their being “stronger, sustainable, and more self-sufficient”. Thus, Edinburgh Waverley Ltd (pseudonym) (EWL), registered as an independent charity, acts as the corporate “trustee” of the Carlton Hill Trust. EWL is, therefore, ultimately responsible for the governance of the fund and accountable to Carlton Hill Trust. A third party, a funder in Scotland (pseudonym: St. Andrew Organisational Funder), has been appointed as a “protector” by the public funder to manage the fund on behalf of EWL. In normal practice, the governance board comprises individual trustees, on a voluntary basis. According to its constitution, EWL has the power to delegate roles and responsibilities to members of the Board of Directors, nominated and allocated to four different sub-

committees. An intermediary agent (pseudonym: Scotsman Foundation) is established to administer the fund on a daily basis.

The purpose of the funding focuses on the start-up and expansion of social enterprises and community organisations in accordance with Case C’s mission statement shown in Table 6.1. The fund is designed to connect people, ideas and resources in order to achieve sustainable community-led regeneration.

**Table 6.2 Case C: Model Design and Structure**

<b>Social problem identified</b>	<b>Strategy in addressing targeted problem (objectives)</b>	<b>Model designed</b>
Previous investment from the private sector providing insufficient attention to community growth and empowerment	Providing financial empowerment in partnership, boosting local regeneration through increased and sustained capacities, developing community ownership locally	Method used to solve problem: making changes step by step, mixed grant and loan, focus on the implementation of changed business models

Source: Developed by author

## **6.2 Illustration of emerging themes**

### **6.2.1 Motivation and value orientation**

In order to understand why a mixed-funding model was used, we explore the motivations that drive Case C. As presented in the background introduction section, Case C is driven to address financial inequality among Scottish community organisations. Further study of the secondary data shows Case C’s desire to empower communities equally in the local service delivery decision-making process. One way to facilitate this empowerment is through the development of financial capacity, ownership of physical assets and equality of partnership in local regeneration development:

“Empower some of the communities facing greatest disadvantage to take ownership and control of their local assets, and to become more equal partners in the development, planning and delivering of future services.” (From the original public funding application)

At the strategic level, the data suggest a high level of interest in testing “innovative models”. The motivation is driven by the mixed input from both the Board of Trustees of Edinburgh Waverly Ltd and the steering committee set up by the St. Andrew Organisational Funder. The interview data show the following features regarding the topic of motivation.



1) New language used in the third sector reflects new thinking and evolution within the sector:

“I thought the change fundamentally reflected the language used. In the thirty-odd years, perhaps you found the word ‘charity’, and then it became a ‘not-for-profit’, now it is third-sector language like ‘social enterprise’. So you’ve got an interesting use of language, which I also think reflects changes in thinking in charity.” (CBT2)

CBT2 recognises that the use of new language might indicate a shift in thinking in the sector due to changes in the nature of charitable operations, for example from the notion of a “charity” to that of a “non-profit”, and then to a “social enterprise”. Taking the environmental charity sector as an example, in CBT2’s view, the emerging social enterprise would not have been able to enjoy charitable status thirty years ago. Nowadays the developing nature of charities has shifted, for example, from dealing with “hunger” to promoting “healthy living”. The changed nature of charity may be driving the move away from a “paternalistic approach” in voluntary organisations. CBT2 further explains:

“Charities are addressing new issues and new ways of resolving things. ... The development of new ideas, new ways of doing things, which pushed old boundaries... but hand in hand with that, it has increased the reliance on government funding, and a static approach, which doesn’t innovate, does not help creativity.”

In CBT2’s view, the conventional approach relying on government-related funding agencies does not seem to be dynamic enough to deal with changed/changing social issues, in line with the changed nature of charities. CBT2 cited the example of Barnardo’s, which, even as a big operational charity, still receives a certain amount of funding from central and local government.

2) Pressure from peer funders to explore new sources:

On the other hand, CBT2 indicates a shift seen in peer funders, from cause-related grants to support for self-sustainment. For example, in this perspective,

“[a] growth of service delivery in terms of funding and main thrust rather than voluntary help as were in the old charities, and they still do, and rally the community development. However, this sort of thing, that would be thirty, forty years ago, while you’ve got a sort of small core, and a lot of people subscribing

because they believe in the cause as opposed to self-help, self-sustainment, self-delivery.” (CBT2)

Again, CBT2 cites a large organisation such as Barnardo’s Scotland (employing 900 staff <sup>21</sup>), which has started to look at the distribution of funds from dormant bank accounts. This suggests efforts in resource leveraging and in understanding how to operate in the current environment. This might provide a fundamental source of change.

CSM3, as a senior strategic officer overseeing the fund, feels that the development of optimised resource potential in Scotland lags behind that seen in the United States, which provides an insight into contextual differences.

“Historically, we are very much just grant-makers. Ironically, we are sitting on the endowment, which is an accumulation of the funding we are investing – could this be invested in a different way, as a loan guarantee? How are we going to contribute [to the] social economy of an organisation? That is a question we are beginning to ask now.” (CSM3)

Moreover, CBT1 (a trustee of Scotsman organisational funder) says, from the point of view of an investor (a philanthropist), that gaps may be seen between the flow of investment capital and ideas from the community. From a personal perspective, s/he also emphasised the fun of engaging with communities.

Having said that, CSM3 stresses the need to address the financial inequality of third-sector organisations, due to their lack of trading record of accomplishment and credit record. Normally, private lenders and banks refuse to lend to third-sector organisations. The launch of Case C is intended to balance the status of third-sector organisations against private-sector organisations by injecting initial financial support.

### 3) Backing individual entrepreneurs with vision and the ability to deliver:

CBT2 articulates the motives for nurturing social entrepreneurs. This appears to be a keen personal passion, based on the profound experience of thirty years’ involvement with the third sector. CBT2 believes that there is a need to create a new type of community, where people can be creative and break away from the dependency culture. One way to ensure that change does take place is to support change-making social entrepreneurs. Thus, CBT2 comments that

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<sup>21</sup>[http://www.barnardos.org.uk/distribution\\_of\\_funds\\_from\\_dormant\\_banks.pdf](http://www.barnardos.org.uk/distribution_of_funds_from_dormant_banks.pdf)

there is a need for the stimulation of ideas and reconsideration of the community engagement model. Ideally this can be done through an incubation centre, nurturing change-making leaders who are passionate and able to carry through change for the community.

“I am interested in incubator spaces and other things, some kind of social stimulation and simulation. So there are two examples from different fields of creative individuals who have a vision of what they want to do and also have the ability to deliver. Therefore, that is the talent and ability to engage other people ... to the community ... and see things in new ways. Ideally, we need a more creative community. ... It's dependency culture and they've got to move from that.” (CBT2)

CBT2 explains that, because of austerity policies, it is indeed a matter of fact that government money is “drying up”. This suggests a pressing need for the third sector to seek alternative sources of finance, maybe beyond conventional thinking. Thus, becoming “self-sustaining” and “self-delivering” seems to be an imperative challenge facing the third sector. This means an increased level of competitiveness in this sector: whether it be charities, social businesses or social enterprises, all are required to demonstrate an ability “not only [to] deliver service but [also to] meet social needs” for the funders. In CBT2's experience, new challenges require new resolutions. Institutions are seemingly some way behind the innovations that are emerging from Case C's operating environment. The changing environment has pushed the sector to re-design and rethink the charitable giving funding model. As an independent organisation, Case C views itself as being in an advantageous position to test new models on the ground.<sup>22</sup> According to CSM3, Case C is designed to answer the pressing call for changing demands in society, especially as the fund is intended to address the funding gaps faced by start-ups and initiatives that are at a developmental stage. Prior to the public fund funding application, knowledge from peer funders was also drawn on. As to technical elements of business lending, the peer funder Case D was invited to be a primary partner in funding assessments. In reality, Case C seems to be the outcome of institutional-level thinking and design. Collaboration is built into its corporate structure, which creates institutional partners by combining their knowledge and resource strengths. Although CSM3 is proud of and keen on the cooperative governance model, there is no mention of “altruism” by Case C. Pushed by the environment and changing funding needs of the third sector, Case C is motivated to find alternative ways to fill financial gaps for

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<sup>22</sup> Original funding application.

the third sector in order to break the dependency culture in Scotland. By supporting “self-sustainment” and “independence”, Case C is driven by change – in particular backing individual entrepreneurship leaders who not only have missions and passions, but also have the capacity to deliver the mission for change. Hence, Case C is motivated to support the desired change with a view to ameliorating financial inequality in the third sector.

## 6.2.2 Governance and decision-making

### Project selection – Funding applications and assessment

Case C applies different methods of assessing funding applications compared to traditional grant-giving, due to the mixed nature of grants and loans. According to triangulated sources of evidence – for example, studying business documents and the researcher’s observations at the final application decision-making panels – the following characteristics regarding project selection can be seen.

The first concerns eligibility checks. More attention is being paid to, and more questions are being asked with regard to, the organisational formation of applicants. This is to make secure the relationship between profit-driven activities and delivery of the social mission in order to avoid mission drift or overriding of the mission by financial objectives.

Examination of all the above elements required in the application forms suggests that Case C focuses on the “business model”. It is highly driven by business market approaches: for example, asking about business services and products and USP indicates a demand for clarification of the market proposition, and an understanding of the customers is central to the design of the service.

Study of two successful funding applications from organisation CAlpha5 [coded] and organisation CBeta6 [coded] suggests patterns in business orientation. The funding application is structured in line with the business model, the goal of development for change, and the ability to deliver the changes and outcomes. For example, instead of conventional project proposals, the structure focuses on the business proposal. The proposal includes strong marketing aspects such as USP and market-oriented intelligence and related understanding. The assessment of the business proposal continues, employing a marketing-oriented approach. For example, applications must demonstrate knowledge and understanding of market intelligence (current and future trends), and strategic analysis of competitors should show an understanding of the business environment. By contrast, traditional grant-givers might merely ask for the needs of

beneficiaries, not probing at the macro-environmental level. Furthermore, all the marketing questions are focused on business service development, promotion, and how to add value in the market-place.

As to the financial proposal, instead of asking for project expenditure, it requires a full account of the financing details. This includes profit–loss accounting; cash-flow forecasting; pricing/sales; and sources of finance. Thus, the design of the application suggests the high priority given to business thinking and the application of business strategy. The structure of the application is in line with the business model and outcome delivery. Both business model and outcome delivery emphasise ability to drive change forward.

### 6.2.3 Engagement process

#### 1) Funding assessment

Table 6.3 (a, b) presents details of two successful applications, drawing data from the funding application material supplied by Case C. The table suggests a shift in the proposal design in order to come more into line with business approaches, in particular by applying marketing approaches and commercialising the products and services in both cases.

#### 2) Operations: ways of working

Drawing on the author’s notes taken as an observer at a Case C award decision-making panel,<sup>23</sup> the following issues are highlighted in the assessment process:

1. Risk scoring: a developed version of a scoring matrix was distributed and discussed at the meeting, mainly based on “ability to repay” and “outcomes”;
2. Market research and marketing skills;
3. Operational business projection;
4. Quality of staff and volunteer support;
5. Capacity to deliver change;
6. Gaps in service provision, capacity and business needs;
7. The difference that can be made on receiving Case C’s support;
8. Further support able to be provided, and time commitment;
9. Financial risk – discussed in connection with the business succession planning.

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<sup>23</sup> For reasons of confidentiality, recording was not permitted.

**Table 6.3a Case C: Extracted Outline of Two Successful Funding Applications**

<b>Awarded Organisation</b>	<b>CAAlpha5</b>	<b>CBeta6</b>
<b>Organisational Type</b>	Company Limited by Guarantee	Company Limited by Guarantee
<b>Trustee Relevant Background (relevancy to business proposal of skills, knowledge and expertise)</b>	Expert in organisational development (community-run organisation), developing new entrepreneurial strategy for sustainable development; international technological procurement, operational efficiency, managing a global team, and understanding human services (for example, a retired nurse and university lecturer), community issues and fulfilling social aims in social enterprise	Experienced business consultant, active member/leader in a community organisation, professional and business leadership, licensed international financial analyst, business management and human resources management, qualified chartered accountant, business accounting in the third sector
<b>Purpose of the organisational investment</b>	A local take-away food outlet operated in a deprived area	Development of virtual office solutions for the entrepreneurial development of Small and Medium-sized Enterprises (SMEs)
<b>Funding proposal</b>	Refurbishment, attracting a new customer base (old people, young families, business aimed specifically at disadvantaged people), increasing sales, creating jobs, building organisational capacities	Expansion of the workspace business, employing 5 members of staff
<b>Money to be spent</b>	Refurbishment of retail unit and marketing and advertising, working capital to buy stocks and paying salaries	Equipment and furniture, upgrading a rehearsal studio and infrastructure, premises, staffing, marketing and business development, operational and working capital
<b>Product and services</b>	Fresh food, freshly delivered, bistro-cafe (sit-in service)	Providing online facility and offices, solutions for charities and social enterprises.
<b>Economic outcomes</b>	Securing and providing jobs, providing training and supporting employment opportunities for local unemployed individuals	Future economic development of the community through ownership and development of assets
<b>Indicators</b>	Number of jobs within a time frame, employment opportunities within a time frame, ongoing work placement	Number of organisations, partnership, number of small businesses; organisations taking up office, and using facilities
<b>Social outcomes</b>	Healthy menu at affordable prices, increasing awareness of food seasonality	Improving the community's social future through ownership and development of assets
<b>Social indicators</b>	Number of people choosing healthy options on a monthly basis; monthly spent on seasonal food promotion	Number of people within the African and other communities making use of facilities to address issues such as health and well-being, access to information and meeting others; number of young people accessing the service

**Table 6.3b Case C: Extracted Outline of Two Successful Funding Applications (Cont.)**

<b>Awarded Applicant</b>	<b>CAAlpha5</b>	<b>CBeta6</b>
<b>Environmental outcome</b>	Reduced daily food waste through daily food management, giving away un-usable stock to local charity, reducing environmental impact through the use of recycling and compostable packaging	Through ownership and development of assets
<b>Environmental indicators</b>	Amount of items/stock reused in the cooking process, further reduction of food waste sent to landfill, 80% of takeaway packaging using compostable material	Number of people within the African community accessing such services. Mitigating fuel poverty and shrinking carbon footprint; number of people accessing service relating to climate change; number of businesses signing up to environmental commitment
<b>Marketing research</b>	Current provision of average standard of overall customer experience, healthy eating with a variety of choices, traditional food served in a contemporary way, a gap in the market for homemade fresh fast food	Current issues after global recession, additional opportunities to encompass a healthy working community incubation space; noticeable growth of demand for virtual office
<b>Customer research</b>	Conversation with daily customers, independent research and competitor analysis, anticipated customer group and the numbers, (majority of customers are elderly or new parents), frequency of use, potential willingly to pay unit price	Target customers, small community groups, training groups, small start-ups, home workers, cultural groups, arts groups, corporate businesses
<b>Premises</b>	Shopping mall retail unit (location): what makes this a suitable location, illustration of suitability of location for the community; timescale, cost and period of rent/lease	Online presence, suitability of location and related costs
<b>Competitor analysis</b>	Identifying competitors' names, strengths and weaknesses, providing evidence and thoughts on how to develop the market position	
<b>Pricing</b>	Describing price methodology, price comparison	
<b>Promotion and advertising</b>	How and where to promote products and services	
<b>Daily operation</b>	Volunteers and paid staff members, annual cost, experience required, specialist skills	
<b>Suppliers</b>	How the applicant manages the relationship with suppliers? This is used as a base for assessing the level of the payment (affordability), supply need and need for equipment	
<b>Start-up cost</b>	N.A.	
<b>Risk management</b>	Identification of risk(s), implication for the business, mitigation, by whom and when	
<b>Overall financial details</b>	For year 1, year 2, year 3, income from produce sales or services (excluding donations and funding), variable costs, gross profit, gross profit margin, total fixed costs, net profit, net profit margin, break-even point	
<b>Cash-flow forecast</b>	Quarterly cash-flow report (actual and forecast)	
<b>Business USP</b>	Identifying unique selling-points	

Source: Developed by author, adapted from confidential documents

Further clarification is also asked of the applicants in terms of a business succession plan and hands-on support. The levels of support and conditions for support are also discussed at the panel. The terms of level of monitoring and reviewing are determined by individual business

circumstances. The first six months' hands-on support is conditional on the first performance review. If there is no improvement, there is a need to look into changing to a new model. It is interesting to note that the panel actually invests in "uncertainty", in particular those areas they are uncertain about and even where there are question marks in such areas with regard to, for example, marketing strategy and human resources. They are willing to provide time and space to see what emerges.

On a second level, the decision-making process indicates the panel's motivation to nurture/develop the leadership and capacities of the applicant. They believe there is a fundamental base level of capability, for example, due to the CEO's connections to local resources. On a third level, the decision to make a conditional offer, with a six-month probationary period, suggests that the panel's intention is to co-develop the process through hands-on support with business coaching. Through such a process, Case C needs to bear certain levels of risk, assessed by scoring matrix.

Risk assessment is supported by risk management software entitled "ifact". Without revealing measurement-metrics, the overall purpose is to evaluate the risk level for the portfolio. To a certain degree, a portfolio approach is used to share the risk among the peer applicants. Data from one assessment report<sup>24</sup> suggest that the decision on this applicant was made with the acceptance of a high level of risk. In fact, the risk assessment feedback section comments on key points of viability from customers to service and ability to repay the loan, performance on the Board and management team, and project costs and risk levels. Accordingly, a "conditional offer" was introduced to mitigate risk.

#### 6.2.4 Entrepreneurial investment approaches

##### Resource marshalling

Case C indicates in its working document<sup>25</sup> that it provides "grant and loan packages to organisations working to bring social and/or environmental benefits [...] through various types of enterprise activity". The document also stipulates that, in line with the urban development strategy in Scotland, only organisations providing services for the 13 geographical areas (see below) are eligible to apply. Unlike conventional grants, the use of the money is fixed and specified to the project, with limited room for change. However, the use of Case C's fund is broad, catering for an organisation's overall development purposes in the business proposal:

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<sup>24</sup> Based on a successful application (confidential document)

<sup>25</sup> Case C working document and public domain information



for example capital cost of financial borrowing, including first asset purchases, wages, refurbishment, set-up and running costs<sup>26</sup>.

Three priorities are set out in the original business plan in 2011. They are: geographical priorities, cross-cutting priorities and operational priorities (Carlton Hill Trust business document 2011: 46). Social enterprises and eligible entities are defined as follows:

“A social enterprise can be a Company Limited by Guarantee with an appropriate ‘asset lock’ and social purpose; it could also be a registered charity. Common types of social enterprises are Co-operatives, Community Interest Companies (CICs), Development Trusts, Credit Unions and Housing Associations.” (Case C working document)

Case C defines a social enterprise by three core elements. First, it is a business with social and/or environmental objectives. Second, its surpluses are invested back into the business or in the community. Third, profit maximisation is not for shareholders but for the community collectively.

The above statement suggests that Case C’s target constituency is wide and inclusive. Basically, as long as an application falls into the category of fulfilling social and environmental objectives, and the surpluses are recycled back to the business or to the community, it is eligible. In addition, an “asset lock” strictly applies to funded organisations. There is a specific clause setting out how the asset lock condition will protect the repayment of the business loan back to Case C in the event of the company being dissolved.

Secondly, Case C’s cross-cutting priorities aim for investment in projects that can help address horizontal themes such as “equalities, empowerment and sustainable development”. As discussed in the motivation section, strongly driven by the aspiration for sectorial equality of access to finance, Case C hopes that boosting financial support may help third-sector organisations to increase their social and economic status in comparison with private companies. Particularly, engaging in the tendering process of local development agencies and local authorities, the third sector should increase its power to participate.

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<sup>26</sup> Source: Case C working document accessed 11.03.2014

Thirdly, operational priorities direct efforts at developing a collaborative relationship with an urban development fund for “shared value and mission”. This is driven by the profound belief that social problems require the “resourceful skills and passion of local people” working together. Thus, making an effort to place local people at the centre of the services can enhance community regeneration. It is hoped that this will generate multiple communication channels.

#### Evaluation and key performance measures

In terms of measurement, Case C has attempted to develop a holistic criterion covering environmental, social, financial and economical responsibilities. All of those elements need to be embedded in the funding recipients’ business model for change. However, the assessment itself may appear to be subjective, depending on the assessors.

#### Innovation and risk-taking

Case C regards innovative model for changes highly. The implementation is evident in the funding application assessment process; it is more in favour of business model demonstrating solution for social change. However, how to define and assess innovation is evident as a universal challenge (CBT2, COM4, CDP7, and CO10). The interpretation on innovation is subjective, and conditional to the person, activities, and contexts of all those happenings.

The extent of understanding innovation from Case C is associated to the risk-taking. Case A constantly place a risk scoring system throughout the assessment and report process. It has studied other funders’ risk assessment both in the UK and in the other part of the world. In addition, expertise were brought on the decision making panel to define and shape a scoring system. Scoring covers pre-funding application and after-award monitoring on regular basis through due intelligence, panel discussion, financial evidence and progress analysis. Although grant was provided as non-repayable financial resources, it poses high-medium level of risk covering the various aspects of the business operations for example, human resources, knowledge, leadership, ability to dealing with changes and earning financial income from its service and product.

#### 6.2.5 Exit strategy

As planned by Case C, based on a 6% interest rate, the repayments are calculated and conditions are agreed. Exit strategy is planned and stated in a legal lending agreement, which is prepared by legal firms, assigned and agreed by the both parties. The money is expected to be rapidly re-injected into community-led organisations in the future. A legal agreement and cooperative

governance protect the repayment. Other than the repayment agreement, no particular value is ascribed to exit strategy design. Even though at the decision-making panel meeting, a business succession plan was requested for clarification, there is a lack of an overall plan with regard to how to support the grant-holder's exit at the point of completion and repayment. No resources dedicated to this area of development are shown. Thus, at the exit point, repayment is complete and the relationship then simply dissolves.

### 6.3 Summary of the key findings

The model is a pilot scheme in Scotland, testing a mixed grant and loan finance package. The following features emerged from the data:

- **Motivation** – Case C is motivated to fill gaps in financial market provision for organisations led by communities in Scotland. It stemmed from initiatives to develop physical assets to tackle social exclusion in 13 deprived urban Scottish communities. Although altruism is not prominently mentioned, the roots of this drive lie in the will to mitigate this sector's inequality, particularly in line with the urban regeneration development agendas in Scotland.
- **Value** – it is oriented towards leading community change by growing financial capacities and status.
- **Funding priority** – exercised at three levels: geographically located or providing services in the 13 designated disadvantaged community areas; having the capacity to start and expand services/products; finding new ways to resolve an old problem or of doing things differently.
- **Funding pattern** – falls into the following themes: clear legal relationship between subsidiary company and parent charitable limited companies; viable business plans, robust financial forecasting and manageable cash flow; good sense of market positioning and marketing skills; unique selling-points; benefits to disadvantaged communities and people in those communities; strong Board of Trustees and good management; people of relevant experience in the team; and balanced commitment including time.
- **Funding time frame** – 5 to 10 years.
- **Funding process** – Case C is expected to play an advisory role in the funding process. However, loans are provided as tools to engage in the applicants' processes of change, as for example, by a conditional offering. A scrutiny and monitoring system is expected to achieve agreed outcomes, and to identify issues early for early action for change. Repayment ability is a paramount element. Case C does not see itself having a place on

grant-holders' Boards of Trustees. However, Case C is keen on relationship brokering, for example providing business mentoring/coaching and on making referrals to peer supporters, for further support such as via the Business Gateways, a supporting agent to grow businesses in Scotland.

- **Outcome measurement** – Case C is highly committed to the evaluation process. Evaluation is designed at three levels: individual self-evaluation, random project sampling and at programme level. Outcome measures are required, covering social, economic and environmental aspects. At the programme level, Case C shows a keen interest in examining to what extent impacts have been made and identifying added value through the funding model and support mechanism. It hopes to provide lessons and suggestions for future development.
- **Exit** – current strategy sets out that when repayment is complete, the relationship dissolves. Repayments generated from grant-holders (at a rate of interest) will be re-injected into the community development pool for new investment. Cooperative governance is established to protect the recycling of funds.

# Chapter Seven: Case Study D – The Business Loan Approach

## 7.1 Introduction to Case D

Case D represents a business loan model in Scotland. The organisation was established in the year 2001, initiated by the Scottish Government, because of a foreseen cut in the Government budget for the third sector. In addition to a financial injection from the Government, the initiative has been funded by the joint efforts of Scottish commercial banks. The organisation is registered as a charity operating in Scotland, under the monitoring regulation of OSCR. It means that as a financial distributor, its financing programmes are only eligible for TSOs in Scotland. Table 7.1 displays informants coding related to Case D.

**Table 7.1 Case D: Respondent Coding**

Case D Coding	Code
Senior Bank Representative (decision-making panel member)	DDP01
Scottish Government Officer	DEP09
Scottish Enterprise Consultant	DSE10
Senior Leader A of Case D	DSM01
Investment Professional	DOG02/ DOG03
Staff Member (Operational manager)	DOG04
Think Tank Consultant	DTT08
Third Sector Policy Researcher	DTT09
Investment Professional	DOG05/DOG06
Senior Leader B of Case D	DSG01
Memo of meeting with a senior leader	DSG02
Grant Holder (service provider for young people at risk)	DGH01
CEO of a financial consortium organisation	DTT02
Ethical Bank Senior Leader	DTT01
CEO of an art development organisation	DGH02
Grant-holder (General Manager of a youth service organisation)	DGH03
Grant-holder (Funding Manager of a centre providing residential care for disabled people)	DGH04
Grant-holder (CEO of a community trust/(heritage and education))	DGH05/ DGH06
Grant-holder (consultant responsible for the original funding application and business plan)	DGH07
Grant-holder (a local arts project) and Grant-holder (a community educational centre)	DGH08/ DGH09

Source: Developed by author

### 7.1.1 Aims and objectives

Originally, Case D's mission was to support the creation of charities and community-oriented organisations and support their growth and capacity to make a sustainable impact. However, after ten years' experimentation and learning, and three changes in the senior leadership, the

organisation has undergone significant strategic change since February 2013, following a change in leadership. Consequently, a growth strategy was launched, inserting a framework for growth into the strategic development plan in Autumn 2013. The framework focuses on five themes that aim to increase capital capacity for communities: 1) expanding funding programmes; 2) building capacity for growth; 3) expanding leadership to support the community's ability to make an impact and develop effectiveness in expansion; 4) monitoring; 5) measuring outcomes as well as communicating the social impact.

Subsequently, strategic change has developed a mission and vision, which enables Case D to focus on its strengths, which are providing tailored financing and investment solutions. Three levels of change can be seen in this developed strategy: mission-driven leadership, strategic market position, and figuring out the core but unique function of the organisation. Table 7.2 presents Case D's development at different times.

In comparison with the old funding policy, the renewed organisational mission statement focuses on “achiev[ing] real social change” rather than as previously stated “mak[ing] sustainable social impact”. Although what constitutes “real change” requires clarification, or may be too challenging to articulate, it at least demonstrates the intention to be “more specific, more targeted, more market-focused and more service-oriented” (DSG01). To achieve that, being a capital provider is identified and viewed as Case D's intended market position, adding value to TSOs. From this point of view, the role can be seen to have altered from that previously broadly defined as “social impact maker” (DSG01) to that of a more proactive connector, in particular with regard to supplying capital to Scottish communities. To a certain extent, this new strategy document recognises that the organisation's role is not so much to make a social impact as to support community organisations as they make changes. Strategically, it might be fair to speculate that Case D perceives itself as a market change leader at the interface between capital and community development. Thus, the supporting mechanism is created to provide “tailored investment solutions” through institutional sharing of expertise, knowledge and information.

Outcome measurement has been identified as one of the changes relating to the new aims referred to in the mission statement as creating more local jobs and enhancing community engagement and economic development. Case D's operational model indicates its changed aim to “be an intelligent capital provider”. It means developing more business support with a view

to being a thoughtful leader in the sector, as explained by strategic leader DSG01, including the intensive use of evidence and information for decision-making.

**Table 7.2 Case D: Comparison Chart of Organisational Changes**

Case D	Prior to 2013	2013 Onwards	Change Indicators (Researcher's note)
Motivation	Making step change	Being a supportive change leader	Shifting from an aspiration to a more defined role with repositioning in the sector
Mission	Support the creation of community-based organisation and develop capacity for sustainable social impact	Provide community the provision of tailor investment solutions	Identified the gaps and strengths with an attempt to respond: what; why; and how
Product and Service	Loan service (wo products: longer term and short term)	Tailored individual financial solution with diversity and individual tailored product and services	Changed to be more customer focused approaches, bring service and design in to the tailored provision, driven by customers' needs
Evaluation of the mission statement and the model delivery	Failed in targeting the right customers, for example start-ups, not the primary cohort that was being supported. Vague in defining the social impact for example how to measure social impact. Undermined the difficulties for social outcome measuring.	Identified and articulated the social finance market gaps. Identified the strategic market positioning.	Redesigned its services and re-identified its market position based on its strengths.
Expected role	Financial supporter, loan provider as a traditional banking	Capital provider. Active community connector. Social market financing leader.	Expected to be a sector leader in social financing.
Funding structure	Long-term and short-term loan with securities	Diversified products with various options. With expansion both product-wise and geographically.	Expansion of geographical reach (new office); expansion on organisational structure in different areas by adding functional roles in the development front; aiming for an increased capacity in financing.
Stakeholders	Banks, government, and service users	Identified strategic partnership with increased alignment including competitors.	Expanding relationships with wider partners, engaging with competitors, collaboration.
Learning	Based on spreadsheet recording	Developing a central management system to capture learning, assimilating good practice in the USA.	Changed a structure for learning.

Source: Developed by author from meeting notes and working documents.

### 7.1.2 Methods in addressing social problems (strategy)

Case D has revised its mission statement, highlighting its strengths from the private banking sector. Based on this, it repositioned itself in the sector, offering financial expertise. After ten years' development, Case D has transferred high-street banking behaviour to the non-profit

field. Lessons have also been learnt. As echoed by DSG01, the changes are also seen in the newly launched Growth Strategy, which emphasises its renewed priorities such as, for example, growing capacities both for service users and for Case D as a service provider. Thus, as mentioned earlier, the investment targets have been identified as to “invest in organisations with the ideas and ability to achieve real social change”. Priorities are given to organisations who can demonstrate that they are bringing in new “ideas” and have “ability” to carry out these ideas for making social changes. Accordingly, the overall investment priorities are reframed as follows (DOG02):

- a) Investment aiming for organisational change by focusing on developmental needs;
- b) Paying more attention to and showing more care for the needs at each developmental stage and so equipping loan-taking organisations with relevant advice and expertise;
- c) Developing a relationship with each loan-taking organisation.

The shifted mission statement and investment priorities suggest two fundamental expectations from Case D: a) loan finance is to be repaid by borrowers; b) real changes are to be evident in the outcomes. In particular, the latter expectation is distinct from those of high street banks. However, as voiced by senior leaders (DSG01, DSM01, DSG02), the question of how to measure the changes has led to Case D paying more attention to the “learning process”. Acquiring knowledge on “how to” has accordingly driven Case D to develop a strategic alignment. For example, this is evident in its efforts towards retaining some Scottish Government money, as pointed out by DSG01. Meanwhile, more efforts are being put into developing collaborative partnerships with peer funders, i.e. funding organisations in Scotland and in the UK social capital providers for business collaboration. The launch of the growth strategy seems to mark the shift of Case D’s aspiration from being a passionate learner to being a “thoughtful leader” in the social market place (DSG01). Strategically, it has sought to align itself with its investors, intermediaries and investees.<sup>27</sup> Aligning with their expected strategic partners, Case D strives to produce new services and products from the investment propositions while collaborating with social investors. In addition, Case D intends to develop new assets to attract three levels of investor: “institutional, corporate and individual investors”.<sup>28</sup> The frequency of the development of “new” products, services and partnerships might indicate Case

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<sup>27</sup> Case D website [accessed 01/11/2014]

<sup>28</sup> Case D website [accessed 01/11/2014]



D's desire to pursue innovative approaches under its new leadership, underpinned or facilitated by a changed strategy and structure.

Learning from the past ten years' operational experience, one of the difficulties facing Case D is outcome and impact measurement, for which its methods have been changed twice. When it came to the growth stage, given its strengths in finance, in theory, Case D identified its financial conduit role as "weaving social, intellectual, human and financial capital resources" (as explained by DSG01). To achieve that, the new leadership felt that collaboration was key. The increased level of information on the web demonstrates its desire to share with the public and the community in order to facilitate better communication. In practice, having the Development Officer in place and an expansion of the office has helped collaboration and developed outreach activities into communities and with the sector, which are now more widely communicated with via the website.

### 7.1.3 Governance and organisation structure

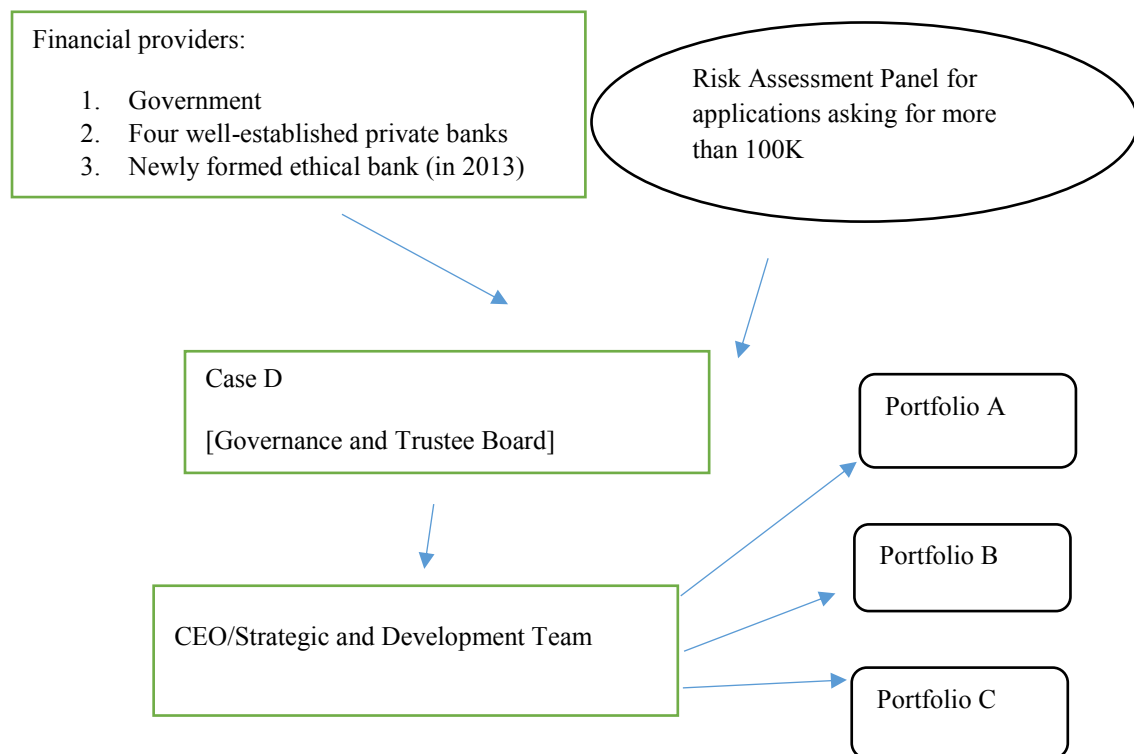
Case D is structured in three levels, including the governance board, the investment team and the operational team. Since the appointment of a new Chair in February 2013, the new board comprised ten members, with an expansion to eleven – to date.<sup>29</sup> Their online biographies suggest that the majority are initially from the private sector, but are also mixed with third and public sector skills, knowledge and expertise. Nine members have had direct prior engagement with the third sector. Approximately eight members have specialised in corporate and business development, in particular from practice in the areas of finance, banking and accounting. Two have specialised in change management and market development for service growth in Scotland. It is also interesting to note that almost half of the Board have a wealth of international business experience.

The Board of Directors act as a strategic team leading the operational team. Amongst the nine members in the operational team, there are seven focusing on investment. The growth strategy has resulted in three new appointments. This has demonstrated the expansion of the workforce in the investment team, as well as in the development area with a view to better understanding service needs. The increased workforce has enabled service and development expansion, and a widening of the geographical spread, reaching out more to geographically dispersed communities.

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<sup>29</sup> 03/03/2015

There is also an external decision panel, made up of the “stakeholders” who are investment representatives understanding issues relating to investment to the third sector: for example, specialists in risk assessment, marketing and financing, account managers, legal representatives. In practice, the panel meets on a regular basis to finally sign off investment decisions above £100K, proposed by and initially assessed by the investment team. Any decision on a proposal for up to £100K is referred to the CEO for counter-signing, as illustrated in Diagram 7.1.



**Diagram 7.1 Case D: Organisational Structures and Governance**  
Source: Developed by author 2014

## 7.2 Illustration of the emerging themes

### 7.2.1 Motivation and value orientation

When a senior bank representative (DDP01) was asked about the initial motivation of the bank to become involved, two reasons were reflected in the response. First, as a push factor, having been invited by the Scottish Government, the bank felt it would be inappropriate not to collaborate with a Government proposal. Banks feel it is always good to work in line with the Government, on condition that the Government does not intend to interfere in the decision-making process at the operational level.

Secondly, at that time (before the financial crisis), the banks were “sit[ting] on a comfortable level of wealth” (DDP01). To their mind, then, capital gains or losses have not been a crucial matter, given the amount requested by the Government. For example,

“I have been involved with [Case D] for ten years now, and I’ve enjoyed being in their work in Scotland. I have been involved with [Case D] since Day 1. The whole thing came as an idea from the Scottish Government to the banks, and a small team of people from four main Scottish banks: [Bank One, Bank Two, Bank Three and Bank Four]. We are all invited by the Government to make a sort of investment in Scotland, which was a new concept we tried to get off the ground. ... To start, each bank was to provide £750K for ten years.” (DDP01)

“The Government [laugh], it wasn’t what we expected. We were worried, and we went into the market place, for banks it would be normal investment. The normal ability to repay the debt would not need to be proven. We felt that it is comfortable to provide it to a company where they are going to specialise in certain areas of services.” (DDP01)

As the response from the Government Officer (DEP09) reveals from secondary sources found by reading the original working document (as he/she was not involved at the outset), the Government has been proactively searching for alternative ways to “make a step change” due to foreseen budget cuts:

“Some of the decisions went back, I don’t know because I wasn’t there....eh, but I mean ...eh, I think I am right to say that basically because of the dates and there being a lot of money around, and with the grant schemes as funding sources for the third sector organisations, that is gone now. It is unlikely to re-appear properly in the near future. So I think, that it would be right to say, the purpose of the fund is to put the third sector organisation on a kind of sounder footing, sounder business footing, so they don’t have to look for grants at all. So the Scottish Government fund has been trying to make an ‘effective step change’. Organisations take the money and make themselves more business-like, in order to become more business-like, and won’t need to look for grants.... In a way, thus to become financially sustainable (these words are specifically used in the original documentation).” (DEP09)

DEP09 indicates that the motivation from the Government was to make the third sector no longer dependent on funding. However, an experienced social enterprise consultant (DSE10),

who was involved in the early stage of the implementation of the “investment concept”, points out that actually the original idea came from an individual entrepreneurial political leader of the Labour Party group, who had specialised in economics and came up with the interventional solution in the process of making structural changes, thus alleviating the effect of governmental hollowing-out of services.

DDP01, as a person involved in Case D from Day 1, said:

“Basically it is how to get the money into the charitable community sector that they [the Government] refer to. In addition, to be quite honest, at first it was a bit of a down, what we meant by that [social investment]. Over the period it has been a case of developing and finding out what we actually mean by the third sector. So, and I do not think they actually, the Government, had any idea either, is exactly that, they do not know what they really want ... as a whole, it felt that there was a ‘hole’ in the market place. That they have been able to provide loan finance to the business ventures, and cheaper than market conditions, it would be a way, a kind of bridging the gap in the market place.” (DDP01)

This quote suggests that Government motivation was driven by identified gaps in the market for financing the social sector. On the other hand, a response from another Senior Leader in Case D has suggested a paradigm shift or at least a need for the re-consideration of the operating landscape:

“I’ve never considered social investment or social enterprise or the third sector. Something that I have been involved with, but have not realised, actually I have been involved with it for several years without quite realising it.” (DSG01)

DSG01’s personal experience might indicate a shift requiring new thinking, possibly in line with (a) an increased recognition and effort in and for the third sector and (b) a resource shift from the private to the third sector. There may be no need to separate the third sector and private sector development: they should be intrinsically and naturally linked up.

The personal motivation of DSG01 was that, while being approached by the head-hunter as purely philanthropic support, s/he felt it was the right moment to give something back to the community and he was interested in a social investment model; s/he explained this as, “I have been round the business block several times, and it is now interesting to support a change in the community”.

To sum up, the motivation of Case D has been driven by the Government. The significant changes are shown as coming from an individual, who started the process for structural change. Although the banks were somehow forced to join in at the outset, the past ten years' operation suggests that there are issues on the top-down model. Although the third sector has proved its repayment capacity on loan financing, it has been identified by Case D that the work can be developed in a more scaled-up and efficient way. Enforced by the new leadership, the change motivation is shown as being blended with various aspects: for example, rationalised thinking and scientific consideration, increased desire for information gathering, active learning and evidence-based decision-making.

## 7.2.2 Governance and decision-making

### 1) Project selection

Case D project selection focuses on the evaluation on the business plan. Meanwhile, as part of the due diligence process, it is compulsory to access a complete set of financial accounts, checking the ability to repay loans (for example, cash flow), the annual accounts and bank statements.

Case D provides a "Guidance on Self-assessment" form online for potential service users. Evidence gathered from the focus group interview suggests that funding officers have applied exactly the same business techniques to social lending as are used in commercial banking. The following patterns have emerged in the project selection process.

### 2) Assimilating due diligence

"I am an investment [professional]. ... [A]t the moment, we are focusing quite heavily on the [...] investment fund, allocating some capital that we have from the Scottish Government. That has taken up a fair amount of my time alone! Just similar processes go through similar due financial diligence for customers, and receive everything we undertake to progress applications." (DOG05)

Although all of the investment managers primarily have a professional background in private banking or the commercial sector, both DOG02 and DOG03 reflected a deep learning process appearing in response to the question of how to lend to the social sector, for example in understanding the operating environment of the third sector and the nature of borrowing. This led to face-to-face meetings with service users as part of the business plan and loan assessment.

“Once we get an initial call, then we decide if there is something we can do or not, either [...] or myself meet the customer, go through the proposal, and examine their business plan. Then we decide if there is something, we can fund or not. If there is something we can fund, then we write an assessment report, a credit report, which will need a sign-off.” (DOG06 – Investment Professional)

### 3) Business viability and checking repayment ability and security

A designated risk assessment panel is assigned to evaluate credibility and repayment ability. The scrutiny check is, thus, focusing on the variability of the business plan and the current financial status of the potential recipient. Different sets of loan conditions are set for different borrowing cases:

“Anything up to £100K, we would need it signed off by the Chief Executive. Anything beyond £100K, we would need a sign-off by the credit panel. Once the loan is approved, we will issue the final terms and conditions, levels of security, and eh... sanctions and get the approval of their commitment, that is, if they are happy with those. If they are happy with it, then we will put it forward, issuing the offering letters and instructing the security for a loan, and then issue the conditions. There are then conditions that we must satisfy before we can give them money. We need to do all that. So once all the paperwork is in place, we will then move on the funds, i.e. the funds are provided to the customers.” (DOG06 – Investment Professional)

### 4) Collaborative assessment between funders

According to DOG06, it is also interesting to note that Case D has been collaboratively working with peer funders. Case D has drawn on its expertise in the initial assessments of Case C. The researcher has participated in the observation of Case C’s decision-making panel meeting. (Further details are discussed under Case C.) Inputting Case D’s tacit knowledge into Case C’s assessment seems to demonstrate the advantage of such collaboration for resource sharing. Reciprocally, Case D indicates that it has also gained more knowledge by plugging into Case C on the community development front. Meanwhile, this joined-up approach has helped the applicants to leverage resources for bigger impact. However, the downside is that it seems to set more challenges and more barriers for applicants not able to get on the loan scale.

“We are kind of two parts of the same team, one is our loan capital – our own loans; the other is [...] on behalf of the Government. Now there is also the third part. We do

financial assessment for Case C, generated from Carlton Hill Trust, which is similar to any other loan portfolio.” (DOG06)

#### 5) The financial and social outcomes

Establishing financial and social outcomes seems to be challenging both for Case D and for its applicants. DOG06 said that in reality, past performance and the current financial account are used as a reference and benchmark for setting the achievable outcome. Although Case D emphasises that setting the outcome is the applicant’s responsibility, achieving the outcomes is a shared interest. For this reason, Case D has developed workshops and made referrals for applicants to participate in relevant training sessions. However, one founder of a community organisation said he has no interest in growing financial capacity, and would rather rely completely on volunteers. This might mean that those types of organisation, in which operations are fully reliant on volunteering, may not be suitable for support from Case D, being incompatible with Case D’s mind-set.

DGH01 reviews, as a grant-holder, that currently there is a lack of skills and expertise in measuring financial and social outcomes. Demonstrating SROI requires extra effort, time and resources; whether this level of pre-investment work by the applicant would be worthwhile seems to be a core question frequently being heard in the data-gathering process.

“Little difference from applying funding, a similar process I would say. Although we have some issues with Social Return on Investment commitment, we had to bring an external person into assessing the financial return, as we were unable to do it.” (DGH01)

#### 6) Key entrepreneurial leader

Decisions are made according to the evaluation of the key entrepreneurial leader. It is that which drives the plan forward. In this process, it is believed, the key person would be one of the factors determining success or failure. Intuition is also used to assess the process after initially talking to the key person by telephone. The assessment process is continued through face-to-face meetings. Beyond performance, Case D assesses the background of the key driver, being regarded as an entrepreneurial leader for the organisation. Case D vets this leader’s credibility, past performance, willingness to take risks and ability to take the organisation and the business plan forward.

In terms of what to fund, DOG03 quotes three elements:

a) Objectives/mission focused on: “You can tell which organisations are focused, what ideas they have, and at the same time, it will give you an intuition.” This statement by DOG03 suggests that the assessment is based on the assessors’ intuition and feelings about the business idea and whether it has a sound business focus. Hence, this may be subject to tacit knowledge and experience.

b) Assessing whether the management team is “entrepreneurship-savvy”. For example:

“The sector is evolving very fast; our lending is still quite a relatively new idea. We are going through that market-place change. So for the management team, there may be a need to be entrepreneurship-savvy, to assess a need in the market-place You know, so many people come to us, sometimes we can’t help, I would just have to be realistic.”  
(DOG03)

DOG03 indicates that due to a big demand for loans, Case D is in favour of the management team being “entrepreneurship-savvy”. How to define this concept may involve subjective views. There is no specific loan guidance on how to assess the ability to be entrepreneurship-savvy.

c) Focusing on servicing the “gaps provision”:

“Even when we felt that we are able to help, we are only trying to provide them with support which could help them. Yesterday we had to go back to one of the organisations. Mainly it is about gaps, what we could do about how to fill the gaps, and then try to help them as much as we can, even though sometimes they are not ready.”  
(DOG02)

This might mean that funding policy may push the applicants to come up with innovative solutions on social issues. To understand the customers’ perspective, DGH03 (General Manager of a youth service organisation) paused, scratched his head and said:

“One of the biggest headaches of my life is the process of [loan]. It is not user-friendly; it is set up for a bigger organisation, which has a legal team. I was surprised that we actually got the money! Perhaps they assumed that we want to be aspirational. In addition, they could see the stories we were trying to sell them. I have been involved in a couple of evaluations with [...]. We are the only smaller organisation. The people there, the smallest with the operational budget of a quarter of a million a year, you



know, they are big organisations, they tend to have tens of millions of budget a year. I did feel, well, that, was funny. ... As a small organisation, it is all about getting good people on board. We've invested in local architecture involving local lawyers, I think investment in the right people doing the right thing. That is our approach. What we put in was a very robust request for funding. I wouldn't like to do it again in a hurry. I thought there was a lot of red tape to jump through. They came up with discrete conditions, which I think, I believe, I can say, was a reflection of the fact that they have changed the process to make it more manageable, certainly through the evaluation, the one that gave us the funding." (DGH03)

Grant-holder DGH03 had complained of the assessment time being too lengthy. It lasted virtually from August 2011 to June 2012, ending finally with an agreement. However, the spending took place retrospectively in March 2012. Although Case D had intended to fill in the gaps in cash flow, for a small organisation it seemed like being forever on a knife edge as to whether the project would begin or not.

DGH03 voiced a few challenges in applying for a loan. First, it was felt that Case D is more suitable for strong organisations. Studying the successful applicants suggests that the yearly turnover is from £67K to £385K. Second, the vetting process seems to require legal expertise, which is too expensive for a small organisation. Third, discreet conditions being mirrored from the financial sector seems ill-suited to apply directly to third sector lending. It is obvious that Case D is on a learning process regarding the nature of the third sector when applying directly the lending model borrowed straight from the financial sector.

It is interesting to note for comparison comments drawn from applicants who received money from both Case A and Case D. They seem to be in favour of Case A's support model. Strong evidence show that the majority of them like Case A's systematic hands-on support, which means Case A puts more efforts into brokering knowledge expertise and business consultancy service from pro-bono support. Case A's money is non-repayable. Closed hands-on engagement is embedded in Case A's design at the outset, while Case D has just started to realise the importance of engaging with applicants:

"Case A through their own budget and portfolio approach would meet with everyone from that project, sharing good practice, ideas and frustrations in the sector. Unique to Case A, in particular in rural areas, you see how difficult it is to travel to here. On a six-

monthly basis, colleagues from the country, with young people are getting together.” (DGH03)

DGH05 indicates that Case A has helped the organisation to develop professional capacity and engage with investors directly, in addition to providing professional support. DGH05 also hints at its wish that the Government money should be distributed as a grant, not a loan:

“I would say I got a lot more about leadership through Case A, where I was invited to champagne receptions at once engaging with potential investors. Case D involved more telephone calls. I don’t know why they were so different; both of them got Scottish Government money.” (DGH05)

DGH06 shares the opinion that they have benefited more from Case A in leveraging resources:

“I would also say, leverage. Case A helped us to lever out more resources. They provided marketing, advertising and legal-aid support. We have taken more from Case A, naturally, because of the support they offered, for example human resources development. Case D has offered marketing, but we didn’t need it and it wasn’t embraced in that line. We have derived greater advantage from Case A.” (DGH06)

However, DGH02, grant-holder CEO of an art development organisation, has had a different experience:

“The relationship with Case D was a good one. They had an easy application process, you had to fill in a self-assessment form to describe your investment readiness, and they all talk about the social sector. Is the sector ready for investment? We have moved on from that issue five years ago. People say, is the sector ready for investment? You are aware that demand rises following the Scottish Government creation of the Investment Fund. People say yes, we are ready. You fill in a very brief form indicating where you are, it is online so it is very simple, it wasn’t about writing a huge volume of application.” (DGH02)

Although DGH02 has stated its investment readiness, it is not known what the investment readiness looks like, what its salient characteristics would be. However, DGH02 also thinks that Case D is more likely targeted at those developed organisations that have bigger financial capacity for loan finance. On the other hand, DGH02 felt that the business loan could create demand and grow the capacity:

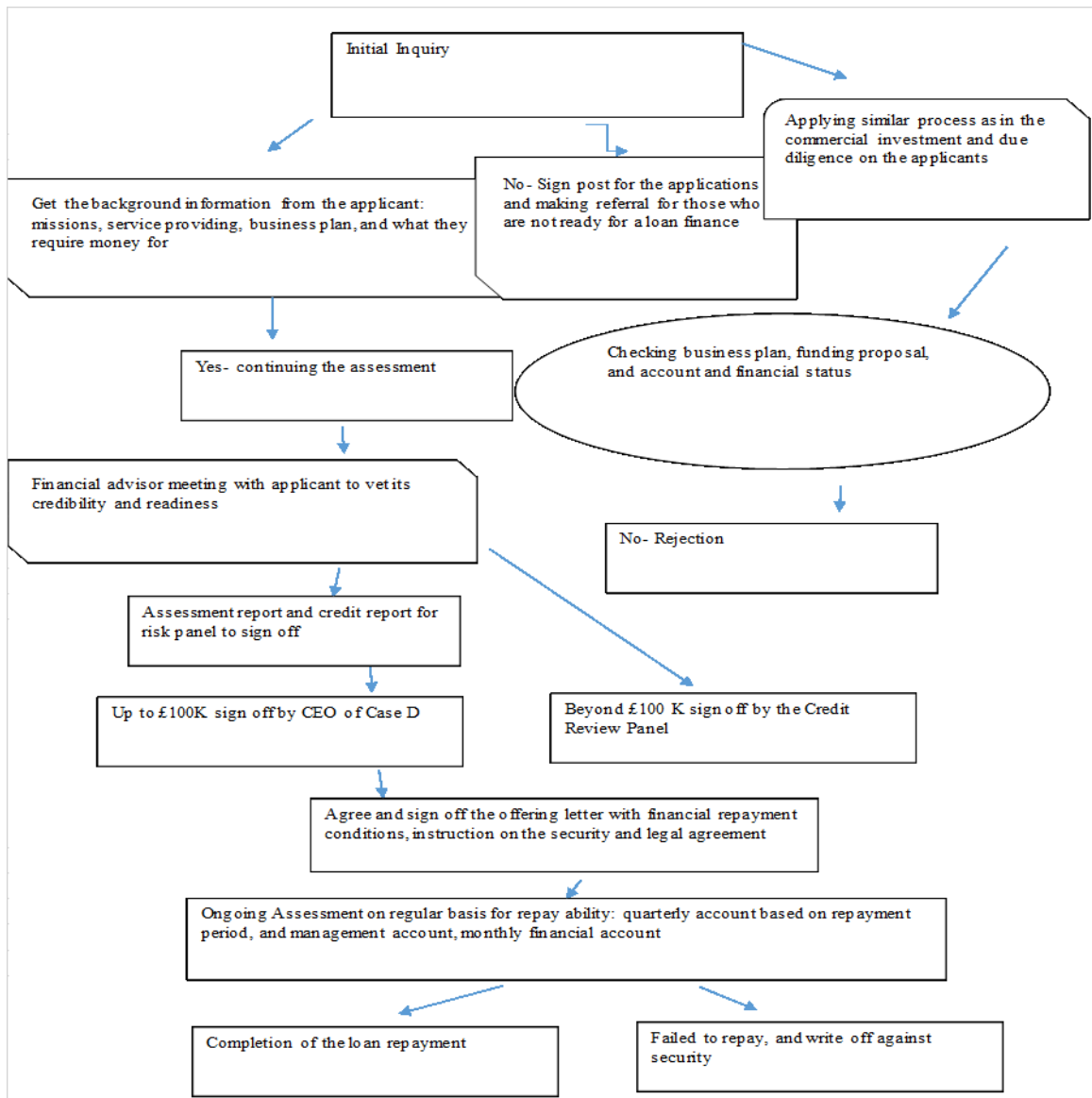
“There have been other organisations included as it has developed over time, more and more organisations have found themselves ready for it [the loan]. So I think, again, if you create a demand stream, you have an income fund, and people become familiar with it, realising that they may have the capacity to apply, so developing the capacity in the sector. I also think that one of the things – done in a wider sense, by offering grants and loans – has encouraged people to accept loans, who would not otherwise have considered it. That kind of introductory lending, that kind of discipline, to have a loan to pay off every year, every month, broadens and changes the perceptions within the sector.”

This comment suggests that for service-users, the resources injected into the third sector might have stimulated the growth of financial capacity, which ultimately has led to increased service supplies and, accordingly, increased demand for borrowing.

Diagram 7.2 demonstrates the funding assessment flow. Due diligence goes through the whole process starting from the initial inquiry. Depending on the size of the loan, a Credit Review Panel directs different investment professionals who assess risks for any loan above £100K. This flow shows that the fundamental concern for Case D is the ability of applicants to repay the loan.

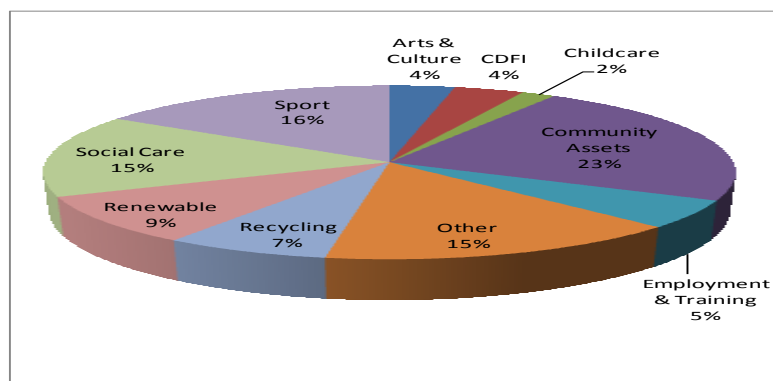
Diagrams 7.3 and 7.4 demonstrate attributes of Case D funding distribution. According to the review of business documents (2013), apparently Case D invested in 196 organisations out of the total investment of £43.9 million throughout the Scottish third sector. Case D managed both its own funding and other sources of funding. For the financial year 2012–2013 (by Sept 2013), a total investment of £5.9 million, comprising £826K from its core capital (14% of the total yearly investment) and £5.07 million (86% of the total yearly investment) on behalf of the Scottish Government (funding source pie-chart).

Looking at the loan distribution, according to Case D central management data in March 2013, the top three investment areas are community assets (23%), social care (15%) and sports (16%). The areas least invested in are childcare (2%), community development financial investment (CDFI) (4%) and arts and culture (5%).



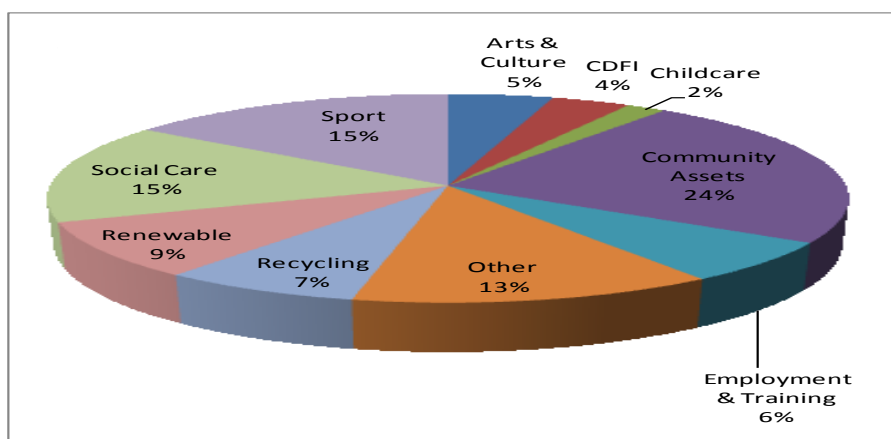
**Diagram 7.2 Case D: Funding Assessment Flow**

Source: Developed by author



**Diagram 7.3 Case D: Percentages of loans by service area**

Source: Case D review document received by email



**Diagram 7.4 Case D: Repayment of loans by service area**

Source: Case D review document received by email

## Governance

Due to the source of the money, the decision-making appears in two paths in tandem. In terms of daily operations and organisational management, the decision-making and full responsibility lie ultimately with the Board of Trustees. For example, to define the mission, structure and goals of the system, the definition is conducted as a group exercise after professional organisational analysis by adapting prior experience both in the corporate and the other two sectors. Resulting from mixed professional inputs from different sectors, however, the final loan decision, normally for amounts above £100K, is remitted to a review panel made up of various senior bank representatives.

Differently from the VP model studied in this research, donors in Case D are actively involved in the decision-making process, except for the Scottish Government. Indeed, given the circumstances, investments above £100K require collective final signing from the Decision-Making Panel. The CEO handles countersigning of loan agreements for up to £100K. However, reports submitted to the Scottish Government are required on a regular basis. A Scottish Government officer (DEP09) said:

“I mean we have no role whatsoever in the award-making process, that is entirely Case D’s role. We don’t have any say in the decision, in any award, the whole award process is Case D. So, you know, our interest is in what their report conveys to us, who has received the award, and how much has been spent. We do have an interest in how they have spent the money, because technically speaking that is Scottish Government’s money ... In terms of day-to-day activity, we don’t have any involvement, we are not involved in decision-making and the grant-making process at all.” (DEP09)

Increased professionalism has been seen in the performance of the board of governance. The recruitment of board trustees is centred on the needs of the growth strategy. In fact, DSM01 requested the postponement of the recruitment of other trustees when they were offered and accepted the position of Chair because the TB felt that it was crucial and important to assemble the team based on the developed strategy so that the skills and knowledge gaps could be addressed in a professional manner.

It is interesting to note, the Chairperson has reflected, that there is a formal agreement with the CEO, which sets a “mentoring” relationship between the Board and the senior leader in the operational team. To that extent, the characteristics of the Board are seen as overseeing the operational structure and overall operations. The sub-group overviews a sub-level of developmental issues, providing ambassadorial support. This means, in practice, more engagement in raising awareness and advocacy at different policy levels or supporting strategic product development. According to DSG01, there is a formal arrangement with Trustees. They are tasked with specific areas of focus, so that everyone is engaged in matching their skills and needs to that of Case D in supporting this change process. For example:

“We have our HR person, and we have completely rejigged our remuneration structure. The grading system, because we have already recruited to these new jobs, does have revised salaries. We introduced this new structure, and the HR person is going to support the [CEO] for small personnel issues in this change process. So that is one example.” (DSG01)

In this way, the TB provides support and legitimacy in resolving ongoing issues in the change process.

Self-reflection and learning also appear to be significant phenomena in governance. This is evidenced in the investment, where the Chairperson commented on developing a “system for learning”. After the interview, the researcher checked with the operational team for further details. The investment was made on the “loan management system”:

“At the moment each individual project is on an individual spreadsheet, but it will be pooled together soon. We have now got one system. ... We have everything, so if we want to know how much money we have advanced to the renewable sector, we just punch that in, it tells us straightaway. We see how many projects we have, where they are, how many jobs are being created. We can get it from one place. So, well, previously

someone had to come in and do separate research and go through 200 projects.”  
(DSG01)

This has provided a base for self-reflection, assessment and evidence-based future decision-making. It shows that support and resources have provided sustained capacities through learning and adaptability during the change process. There are less data pertaining to conflict and power differences. Apparently, “mentoring” governance appeared to be a new element, and it would be worth exploring as a separate topic.

Risk-taking, in particular in loan financing has been attributed to the Board, because it is the Board that delegates the power to members of staff, allowing them to take different levels of risk.

### 7.2.3 Engagement process

#### 1) Operations: ways of working

Case D provides repayable loans to the third sector. The money is invested for up to 10 years (in some cases up to 20 years) with a certain amount of interest. A lending contract is issued by mutual agreement, which sets the terms and conditions for the repayment schedule. There are only two types of product in the old system – long-term and short-term loans – but in the newly released growth strategy, Case D indicated its intention to create more individually-oriented propositions with tailored solutions (source: both from Case D business review document and interviewees).

Most of Case D has moved to the third sector from the private sector. At the initial stage, Case D operated in the same way as in finance investment in the commercial field. Given the mirrored mind-set from private lending, Case D appears to have a “hands-off” approach. However, along with this development, staff point out that learning has taken place through daily operations, in particular in learning “how to lend money and how to get it back again”. DDP01 commends the rapid knowledge development in the third sector, and repeated this a few times: because the money given out is not a grant but a repayable loan, it is important for the management and assessment team to be able to marry their skills in understanding the third-sector needs; for example:

“I don’t know if you are aware, but one of the things in the management team [of Case D] has always been a strong banking background. The original CEO...Bank of Scotland, the successor... from Bank of [...] ... Current CEO ... Bank of [...]. I think

that helped very much in the banking mechanism. They quickly learnt the third-sector economy. They were able to marry up their skills in that area.” (DDP01)

Although this has driven Case D to increase its involvement with grant-holders, for example with site visits to understand what is going on, it is widely recognised from the focus group interview that the core working approach is quite similar to the bank lending process. The return on investment, however, in particular on social outcomes, has triggered deep learning about the sector: the nature of borrowing, the people in the sector (including volunteers), the working style, and the passion.

In order to focus on customers, DOG02 illustrates, at the focus group interview, that

“[w]e go out to visit customers, and also follow up ... to see how they are progressing. It is also important to visually see the impact. We really keep a hands-on experience with them”.

A successful application is always followed by hands-on engagement by Case D. Hands-on in Case D has been interpreted as follow-ups, providing ongoing support case by case. Different from VP Case A, there is no central guidance to coordinate strategic hands-on engagement. It is ultimately up to the individual investment officer to interpret, decide and carry out.

## 2) Increasing products by tailored approach

DSG01, the Chairperson, comments: “Really, we only have got two products in the old system, one is vanilla ice cream, and the other one is vanilla ice cream with a cone.” What is meant is that before April 2013 only two products existed: long-term and shorter-term loans.

However, DOG06 (investment professional) adds that there is another type of fund called the “bridge fund” which has existed for quite a while, although the demand for it has been fading. In DOG06’s view,

“[the bridge fund] has fixed some problems in the sector. They don’t have a large cash flow, in particular in rural communities. Through their funding project, it took them months to get that in place, to get the project started, and they waited for months to get paid. That is why we came in to help them with their cash flow.”

The above comments suggest that the approach applied is similar to that of the banking sector, i.e. customer-oriented, aiming to solve the customer’s finance problem. For example, one of the solutions provided is bridging finance, which is linked to grants and loan finance. In



operation, bridging finance acts similarly to a mortgage situation: based on an approved grant application, Case D is willing to act as a guarantor and provide temporary loans to applicants until the receipt of the grant. The operations appear to be quite flexible.

Customer value has been important for Case D and hands-on support is also more in line with “trouble-shooting relating to reporting and borrowing”:

“Customer value is the additional support that they are receiving. They are coming to us when they have problems. Problems in loans provision perhaps, bridging finance, predominantly to help the customers secure the grant retrospectively and pay up front, once the grant is received, their grant came directly back to us. ... If there is any cash flow problem, we will always give them a holiday period to get them back on to the serene path.” (DOG06)

### 3) Being more proactive

Since the new leadership began, hands-on engagement has increased. When the researcher asked the Chairperson what was expected to be seen in five years’ time, the response highlights were, “increased investment funds with diversified sources” and “develop the sector for better investment”, as evidenced in the interview record:

“We’d like to see that we have increased availability from banks, from government, from corporate business, from investment funds and from individuals. So we want to diversify the source of our capital. Secondly, we want to develop a sector-based policy for investment so that we help in particular areas. At the moment, we tend to wait for people coming and knocking on our door.” (DSG01 – Chairperson)

Being more proactive has resulted in a growth strategy, in addition to being seen in operation following the new leadership taking control. Case D intends to specialise in certain areas, for example social financing, with greater focused and targeted service areas. Thus:

“There isn’t a specific plan, whether we are going to be helping corner shops, or cafes, or communities, or renewable trusts, or just whoever comes. If they meet our investment criteria, we help them. And I hope we want to develop a policy that will help in particular areas, individual areas, thus we will specialise in particular areas, and have appropriate products. We aren’t good in those areas at the moment.” (DSG01)

Learning is regarded as an agent of being proactive. Initially there is no formal learning structure discernible in Case D apart from the Loan Management System used as a database for potential learning. However, learning was taking place individually through daily operations and interactions with the third sector. At a change of leadership, a focus group was interviewed, including the CEO and almost all operational members. A strong voice about learning is reflected from the focus group interview. Subsequently, two separate one-to-one meetings with DSM01 and DSG02 indicate “enormous learning” and “learning all the time”. Learning has resulted in a high level of motivation to change, and is summarised in the following paragraphs.

An investment professional (DOG02), with more than 20 years’ private investment experience, reveals that first-hand experience on witnessing the third sector it is not about “individualism, it is about everyone else”. Learning on this scale seems to have an impact on its understanding about value. An example was given in the case of a failure exit, where, rather than just handing in the keys and walking off, like private sector venture leaders, social entrepreneurs make a great effort to minimise the loss for the organisation and community.

Another investment manager (DOG03), who also had come from the private sector, commented about “knowing nothing about the third sector when I started”, and endorsed the deep learning curve about how third-sector leaders deal with “money, passion and commitment and people”. However, it was also pointed out that the excitement sometimes had been overwhelming, and an investment manager sometimes has had to balance and tone down the excitement and make sure that rationality was introduced, for example with regard to the resources and a viable business model. In practice, coming from the private sector directly, it felt that “it took [me] a while to figure out how to lend in the third sector”.

An operational manager (DOG04) shared their frustration at seeing investment in the third sector still behind in this country in comparison to the rest of the world, for example in the USA. Because the sector has moved on quickly, the cultural change of the sector has been slow. As a member of the investment organisation, their frustration also comes from being unable to help every applicant. For example, as quoted by an investment manager, for a renewable energy development, as a “capital intensive investment” bank [commercial bank] including cooperatives, we have reduced the lending commitment to the third sector, which requires community organisations “to find another million to get it off ground”. There is at least a million-pound gap that has been identified. It suggests that the third sector faces a double-

edged challenge in reduced financing supplied both from the Government and from the commercial ethical banks as lenders. It might mean Case D is expected to play a bigger role in sourcing larger finance support to the sector.

It is also interesting to note that an investment manager (DOG03) shares the learning from their role on a daily basis, because “learning has been taking place all the time, and there is so much going on around and about the sector.” In practice, it has enhanced learning in understanding “how segments are often small and how diversified is the sector”. As to decision-making, it is interesting to hear “most of the time, you use your intuitions to understand different types of people, organisations, and different levels of engagement. ... Meanwhile, you’ve got to manage different expectations”.

Lessons are also reflected in the development of monitoring and information exchanges between Case D and its investees. The Operational Manager (DOG04) points out that there seems to be a lack of understanding about the importance of updated information on a quarterly basis from recipients. This has added more time and stress, chasing information on top of other development tasks. It is interesting to see that six months after the focus group interview, the evidence shows that Case D has started to invest in a new piece of software to capture learning in a more systematic way. One might argue that a software application might be a tool without any purpose to it if there is no human input. But, at least, the action somehow indicates learning reflection has been taken into consideration in the development process.

Although the due-diligence process has provided more comprehensive feedback with reduced risks, the process has been long in waiting for information for the final decision. From a fund management perspective, it is pointed out by an investment manager (DSG04), “we need to get the money out of the door and get it back again”. This appears to be a different structure from the VP case studied. Apparently, money has been lent to Case D conditional on repayment interest. Money-holding obviously has a financial bearing for Case D.

A reflective development is demonstrated from Case D. Although it speaks clearly about social impact in the previous mission statement, after ten years’ development in the field a number of key lessons have been shared and taken into consideration by the new leadership. First, the bank investment model has been directly applied to the third sector without appropriate consideration and justification of contextual factors. Secondly, lying in its passive relationship with the sector, staff sit in the office waiting to be approached, just like high street banking, rather than being more proactive.

In addition to that passive motivational working attitude, comments also include “frustration” in seeing the slow transformation in the pace of development in the social sector, compared to the respondent’s experience in the USA. There, because the sector changes so fast, the supply is felt to be behind the shifts in demand. The respondent felt a “lack of patience” in not being able to see a real change.

#### 7.2.4 Entrepreneurial investment approaches

##### 1) Resource marshalling

As indicated in the introductory section, in addition to the Government’s first financial injection, the resources of Case D are mainly from the four cooperating key banks, in addition to one ethical bank in Scotland. However, to implement its growth strategy, one element in strategic change is seen as engagement with the private investment community for more resources, for example, Big Society Capital. As the CEO indicates, to grow the sector it is equally important to grow its own capacities. By October 2014, Case D had managed to leverage resources from Community Capital loans attached to a corporate business, for one year, interest free; those were small loans with no security.

Information available within information presented in the public domain suggests that Case D is keen on playing two roles: monitoring ongoing loans to mitigate the risks, and providing hands-on engagement for further advice and service assistance.<sup>30</sup> Funding guidance documents indicate that Case D targets start-ups making a significant step change and social impact. It is interesting to note this priority focus might be challenging to meet, as start-ups might not have the capacity to absorb loan finance.

Case D has also shown an effort to lever resources to fill the gap beyond its own funding scheme. At the time when data were collected, Case D was in the process of negotiating with various financial partners. At that point, there was no indication of Case D’s intention to engage with philanthropists, based on its strategic partnership design map, but DDP01 (senior bank representative) indicated a trend towards more Scottish entrepreneurs being interested in social investment. They might not perceive themselves as philanthropic funders, but their characteristics fit in quite well with the operational definition of the five characteristics

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<sup>30</sup> Community capital loans attached to a corporate business (2014). Source: Case D website

identified by Anheier and Leat (2002). So far, Case D has not yet attempted to raise finance from the public.

Resources from the Government seem to be driven by the financial crisis and foreseen budget cuts. Based on the Government's perspectives, a government officer (DEP09) noted:

“Case D has managed the [...] fund on our behalf. Over the course of the four-year period, up to the end of March this year (2014), we've put in £31.8 million. Obviously, given the financial economic climate, we are actually not going to put any new money into it this year.”

As to the resources being distributed to the third sector, there are five products so far. In addition to financial resources, it is highlighted by the Chairperson (and also seen in Case D's growth strategy document) that social resources are regarded highly by Case D; for example, social capital has been mentioned, and explained as tacit knowledge sitting within the third sector and communities and networks. This is about good practice, as well as the experience of failure. Information is also considered as a significant resource. In action, Case D has invested money on an advanced application system to manage and monitor applicants. According to the document titled “Loan Management System”, Case D intends to use the software system to monitor and enhance the process, gathering evidence and using information-based decision-making. In order to align resources, Case D has developed its key strategic partners, for example, demonstrated from its working document, four categories are presented:

- A) Existing and potential investors: Scottish and UK Government, well-established private banks, lately established ethical banks, UK-wide funding organisations including social investments organisations (4), funding organisations, traditional, reputable and wealthy trust, umbrella organisations of funding bodies, local authorities, EU funders, and funding bodies from the creative industry and arts and culture sector.
- B) Suppliers and other partners: National established lending bodies, law firms, legal panels and regulatory bodies, banking and financial groups, Communication companies, design and web-hosting companies, universities and academic bodies, and organisational funders.
- C) Intermediaries: Third-sector funding, supporting and networking organisations, Third-sector interface organisations, city-wide business-related organisations, membership associations, and forums for key actors involved.

D) Individuals: board members, employees, exiting customers, previous customers, individual influential leaders, credit committee members, previous contacts for the board, employees and corporate member; interns and researchers.

From the interview with DSG01 and talking with the operational team, it seems that funding priorities are given to the following areas to implement the growth strategy:

A future framework for growth – staff expansion: “We are expanding ourselves with the appointment of new members of staff taking care of development and funding, raising roles, team number increasing from 6 to 11 or more – even doubling in size. This is a significant change and a sign of the change vehicle of the organisation.”

Geographical expansion: “Secondly, we are opening an office in a northern city and appointing an investment manager sitting with Highland Enterprise.”

Future Government funding: “We are making a proposal to the Scottish Government to recycle the repayment and the capital using it as seed-matched funding for the Big Society capital money, might be up to 10–15 million in total.”

Development of the partnership: “We are developing strategic partners. We did a stakeholder analysis needed to follow up the four levels: investors, suppliers and other partners, intermediaries and individuals.”

Effective use of resources: “We have to develop our thinking clearly, effectively using financial information, human resources, social capital, intellectual capital, governance, to make a real contribution to their effective operation and financial long-term sustainability.”

Commitment to learning: “We are learning from successful and failed organisations. Looking around and learning locally from partnership organisations and learning from the world, for instance, we learn our central management systems from American models.”

Processing the value added on an ongoing basis: “We have to constantly develop a system, on how best to holistically maximise the effect of the value added process.” The growth strategy apparently indicates a priority on expansion, both its own and its service capacities along with its strategic partners.

Although lacking resources from individuals, DDP01 (senior bank investor) shares an aspiration:

“The whole product was innovative at the market place. I should perhaps add that, at the time, the bank discussed it and set it up. There are also valuable systems already provided, e.g. a number of entrepreneurs and commercial entrepreneurs are able to invest some of their own money in Case D. People who are very wealthy in the Scottish communities, even as their CEOs look for capital. One idea is to observe the entrepreneurs who have been successful in the Scottish market, and are willing to put some money back.”

To sum up, enhancing “ideas and ability” drives the mission: it sets out a basis for people-oriented development but, in addition, technology has also been enhanced for resource development.

## 2) Innovation and risk-taking

Case D is a loan finance model working within the third sector in Scotland. Although driven by government budget cuts, it is seen as an innovative outcome. The process appears to be an implementation of an innovative product as a new organisation. Innovation has appeared in the investment literature, and at the focus group interview event respondents were asked to define innovation in their assessment and describe the meaning of innovation.

The team members perceive innovation as follows:

“I think for me it is doing something differently, thinking out of the box.” (DOG02)

“They (grant-holder) might deliver a new service for the next five years, in my view.” (DOG05)

“We are talking about a Scottish Government fund; we are talking about transformation, infrastructure change, using software, as a whole building up new capacities, moving themselves [grant-holders] into an innovative vision, and innovative ways of working.” (DOG06)

“We need to do something different. What we could do, will bring us an income stream to the sector. That will change our mentality, dependence on government or grants.” (DOG03)

“To me, what is innovative, I could give you an example, in a highly deprived area, there is lack of service provision. Local entrepreneurs have changed a local unused

space for an increased dancing base and sports, which has generated demand in that area. For me, providing a new service in a new area is innovative.” (DOG03)

“It depends on the individual organisation. If they have never considered before, and are heavily relying on experience, they perhaps borrow expertise from somewhere else, become market ready or make a service marketable. For the organisation itself, it started doing things totally differently for different people. For example the health service, the key to innovation lies in social entrepreneurship with broad expertise and knowledge.” (DOG06)

To sum up, the data suggest that innovation, as perceived by the team, is seen as providing new services, serving new groups of people, applying some new thinking and new vision, and adapting new learning in the market-place. It is clear that the focus is on social services rather than income streams. In other words, it has confirmed that income streaming is only used as a means to achieve the service goals but not treated as an end in itself. The interview also suggested an awareness of considering the operational environment and entrepreneurial skills to make a service marketable.

In terms of managing innovation, the Head of Investment (DOG06) indicates that fostering a new type of professional contract has appeared to be innovative in the management process. It requires new skills and knowledge to match supply and demand; money is only used as a means here for service delivery. Managing different expectations is also highlighted as an important element. In the relationship-forming process, developing trust, for example lending without security in the third sector, appeared to be successful and new. On the other hand, Case D provides a service to fill a market gap, for example taking a risk in order to be the institutional guarantor for the third sector, which has moved from “not being viable to viable”.

Asked about innovation, DOG06 commented:

“What aspect is innovative? The main part is not handing over money to the third-sector business, it was actually in establishing a professional contract, here you are, we thoroughly researched you, and you want to buy two wind farm machines. We go in to make sure that that is a viable proposition. They manage it thereafter. The actual products that [Case D] received are not different from what we use for commercial lending to small business. But the business bank does not lend in terms of repayable loans for three or five years without security. Where there is a difference, the sector



finds it very difficult to get security. They [Case D] will have an unsecured product. They will only have a little security.”

“What happened often was the third sector business may need, e.g. £500K, they might be able to negotiate it from a commercial bank for £400K, but they perhaps need another £100K from [Case D], but, they are at the back of queue, they are the last person to get the security. But they are the people that are providing the additional funding, taking it through from not being viable to viable. Often it is not the case, just say, social investment has lent £100K, that was part of the much bigger package. So they are involved in a lot more funding. In a way, it is like they have extra shares.”

Therefore, according to DOG06, business capacity has been increased through Case D’s financial and risk-taking intervention.

When the Chairperson was asked about the differences from traditional philanthropy, three areas of difference were stated:

“First, it is loan capital, whereas the traditional philanthropy is a grant. Second, we are very happy to, and want to, do more in partnership. So, for instance, we will work with [a private] Trust or with [a public funder] who may provide start-up capital. And then we provide loan capital. The third difference, I think, is we are developing our own ethos – we are looking to be a leader in the social enterprise world. That is where the Chief Development Officer appointed wants to be, which is so important. We want to be able to actually support and promote the development of the sector. We don’t want to simply sit there and wait for people to come and knock on the door.”

Risk-taking appeared at different levels. Studying the online information regarding loans provided under the category of Community Development, it appears that only two out of 11 loan recipients hold property or deposits.

The bank has acknowledged this high level of risk money, however, and this was at a time when the banks were comfortably wealthy overall; thus, that level of risk could be absorbed. While there was some concern and possibly cynicism from the bank at the very beginning, the reality proved that the sector could be trusted, as it has managed to repay the loan.

DDP01 pointed out:

“The banks themselves acknowledged from Day 1, these were high risk ventures; they wouldn’t normally be eligible for bank finance. But they have been channelled the finance in a controlled environment. To be quite honest, it has been quite successful up to now. ... It has been replicable; the company [Case D] has been quite successful despite the recession in the last four years. They have been doing well, and not many customers have gone.”

Risk-taking is associated with different volumes of loans, which are allocated to different decision-making levels: for example, anything above £100K requires a panel decision of senior bank representatives. Any loan agreement up to £100K can be countersigned by the CEO.

Risk-taking is also related to the source of the money. Focus group interviews suggest that the risk is bound by source of the money; for example:

“The difficulty we have is our limited capital. If we provide capital just for start-ups, for a risk on the margin, we have no money left for others. Particularly, the money is not ours (government, banks and investors) but for our own money, we could take a higher risk.” (DOG03 – Investment Professional)

Based on this comment, it is clear that managing other people’s money has constrained the investment for start-ups, as there is a need to balance a level of risk at not too high a level. As a financial conduit, this also suggests that Case D is expected to be responsible, and make sure of a positive cycle of repayment rather than an investment loss (as commented on by a senior bank representative [DDP01]). According to DOG06, “if you look at the percentage fall-out rate on the loan, it is only 2%. If you look at high-street commercial banking, the rate is higher.”

Risk is managed by assimilation of commercial bank lending conditions. The approach taken is holding “moveable assets” as deposit. This is managed case by case given the different circumstances and confidence levels in the applicants’ ability to repay loans. For example,

“We don’t take personal security. There is no personal guarantee. If they do not own any property, we look at standard property. We also look into something called a Bond Floating Charge; for example, we investigate if there is anything moveable that can be valuable, for example company van, computer, moveable assets. We wouldn’t deny them because they don’t have social security. The organisation can repay the loan. We wouldn’t provide the funding to an organisation that can’t demonstrate ability to repay

the loan. The third area we could look into is corporate guarantee. We can look into their parent trading company or subsidiaries.” (DOG06 – Head of Investment)

Three levels of investigation are provided. For example, first, a “bond floating charge” to move tangible property to offset the loss. Second, to probe into the ability to repay; this links to the service and its ability to gain financial return. The third is assessing corporate guarantors. In practice, this model has driven some third-sector organisations to change their structure. For example, studying an anonymous recipient, it was discovered that its new business model exactly fitted into the subsidiaries’ model. Interviewing the core person involved in the change proposal has also suggested that thinking has been influenced by funding selection conditions and developing models and also by the mechanisms of maintaining financial sustainability. Therefore, a parallel model has emerged where a trading company feeds the service delivery of the charitable purpose. However, it is unclear as to how governance between the two profit-making and non-profit-making entities is arranged.

Risk has also been shared by collaboration. For example, Case D has developed its partnership with ethical banks for property loans. In principle, the bank could only provide 70% of the evaluated purchase value. However, Case D has acted as an “institutional guarantor” to provide up to 30% of the loan to fill in the finance gap. In this case, recipients would need to demonstrate their ability to repay, for example by offering a letter of grant.

To a certain degree, risk has been managed through partnership with an ethical bank in Scotland. DOG06 comments that

“for organisations who want to purchase goods, the problem is that the organisation might not have the other 30% of the deposit. We will agree with [...] the bank to fill, close the gap, and streamline the legal costs. Sometimes the legal costs can be quite hefty. Exactly, it is mind-blowing.”

This suggests that absorbing legal costs for the third-sector organisations can be challenging. This is echoed in the borrowers’ views. According to DGH02 (CEO of a grant-holder), “all the funders can be risk-averse, their own constraints, their own governance; they can’t take a complete approach to risk”. Four points of concern were raised by DGH02:

“One of the potential risks is a sense of what is going to change, what is going to change the sector for the bad [more profit-driven], bringing in different goals, treating social investment as profit investment. Plus, being dealt with in a similar way to the stock

market, to corporate bonds, or anything else. Perhaps just being treated as investors, i.e. just being treated as another means of return. It will change the sector, rather than the money channelled for social needs. ... The wider social landscape has been changing so rapidly”.

Often the plans lag behind the changes: “On the other hand, social innovation can be generic, which can mean different things to different people. Not always driven by social value, we have to be very careful describing the end result. The results are about social impact. I sense what has happened in England, they are going to change the sector because it brings different goals.”

“It has allowed us to create change by adaptation but not conform to the private sector norms. That is why the social investment fund is good, it is addressing the needs of the sector, not changing the sector’s structure to match the needs of investors.”

As an innovative movement, increasingly accepting private input to the third sector, grant-holders have highlighted good practice in Scotland, keeping the social element as a top priority. According to DGH02 the supporting system seems to be being left behind within the fast-changing demands of reality. Meanwhile, the interview also sounded a note of support for not changing the nature of social enterprise and not steering it away from its original purpose of social gains. Profit-making is not for oneself but for others in the community, and conserving the social value of the sector. This seems to pose questions in terms of what levels of regulative intervention government or intermediary organisations could or should have in the enhancing role in this change process, to ensure that it is one way of financial capacity being increased, and on the other hand of being truly fit for purpose.

#### 7.2.5 Exit strategy

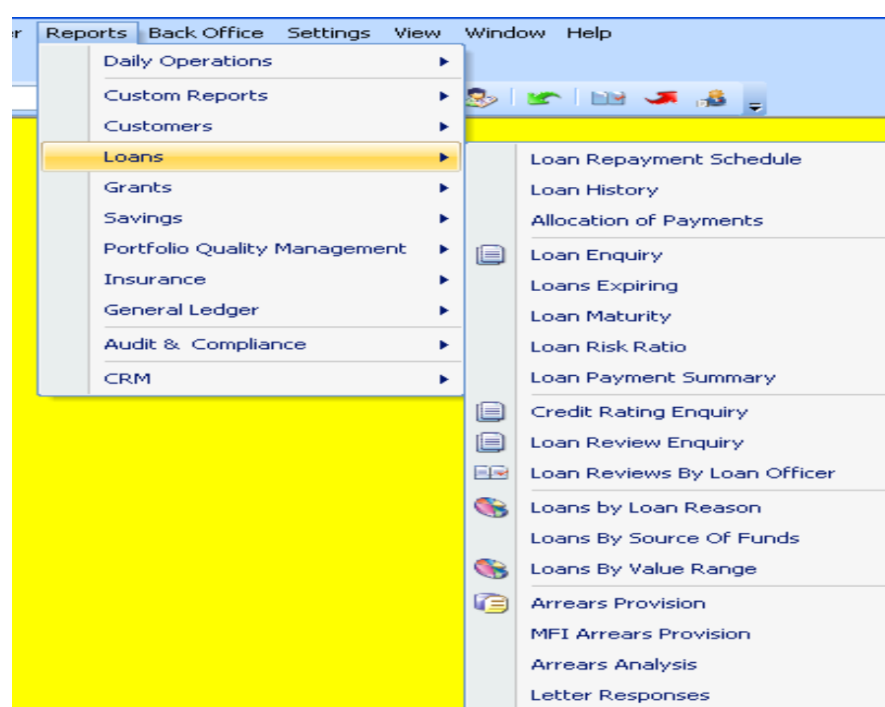
The investment period depends on borrowing circumstances, and varies from 2 to 20 years. Based on the loan’s legal contract, the money is repayable under agreed conditions within a certain time period. On successful repayment, Case D withdraws its relationship, and uses the interest received to recycle money to the pool of continuing investment to the third sector. In case of failure, Case D looks to dispose of suitable property such as vans, computers or any other tangible assets. In cases without a security deposit, the sum borrowed has just been written off. However, according to the funding officers, it is felt that grant-receivers’ level of

responsibility and efforts in trying to keep losses to a minimum is very impressive. This is in comparison to their experience in dealing with commercial business bankruptcy.

To enable an exit, Case D also provides various supports in leverage resources for grant-holders, for example, the relationships leveraged with a funder in Scotland and a community capital attached to a corporate business. For the former, Case D was involved in the decision-making process. In the latter, Case D plays a monitoring role, along with providing guidance and advice. The engagement at the institutional level suggests that Case D's efforts are fulfilling its mission on "ideas and the ability to change".

### Evaluation and key performance measures

Although the Loan Management System has been introduced and shown in Diagram 7.5, ongoing assessment remains, requiring a human interface, for example, making sense of the regular reports and project visits. The system<sup>31</sup> would support analysis of various requests, for example with regard to credit rating, risk levels, repayment schedules, customer analysis, loan application, checklists and generation of a final report, depending on the purpose. The following diagram illustrates the system layout:



**Diagram 7.5 Case D: Central Information Management System**

Source: Developed by author from Case D working document

<sup>31</sup> Case D working document titled 'Loan Management System (LMS) Background and Overview of System 2013'

However, ongoing assessment still requires human involvement. For example, making sense of the data and information in the decision-making process. In addition, additional documents such as management accounts, monthly and quarterly cash flows and profit and loss accounts. The ongoing assessment is checked against loan conditions.

“And then we have ongoing assessment during the term; for example, it might be a five-year loan. We will look for management accounts, monthly or quarterly depending on the amount of money and what agreement is in place. What are the risk assessments, and does it have any connections? And get annual accounts for additional information that we might look for. Depending on the proposal, if it is a loan buying a property or community hall, there will be a lot more ongoing assessment during the loan repayment period. Once the loan is finished, that would be it. Then the security we are holding on to will be released. We will keep contracting with customers unless there is something else to discuss. Ultimately if the loan has been paid, that is the conclusion at that point.”  
(DOG06 – Investment Professional)

As a large portion of the money is from the Scottish Government, the Scottish Government Officer (DEP09) was asked how the investment with Case D is measured in terms of achieving Scottish Government expected goals.

“They themselves have done studies on the social impact of the work, they are going to do another one this year. They seemed (kind of) to have demonstrated the social impact of the grants being awarded. (Eh, eh.) I mean it is a condition of the award, there must be a social impact, or otherwise it would be just like any other commercial loan or whatever, funded to have a social impact.”(DEP09)

Although social impact has been highlighted as a compulsory measure, the response seems to be ambiguous in terms of the specific levels of conditions and expectations. Some grant-holders found it quite difficult to grasp the measurement ideas. A measurement review had taken place, which had been changed twice. However, in terms of social impact or the social outcome measure, as indicated earlier, it had gone through two phases. At the first phase, return on investment was pursued; for example, each investee was required to calculate the added value of every pound of investment. This became problematic in terms of validity. The nature of “hard to quantify” social outcomes became a hurdle for measurement. However, Case D has quickly learnt to understand the sector by developing mutual agreements and avoiding imposing financial packages. Hence, at the second stage now, the recipient organisation is

asked to establish and embrace an achievable target. The following table presents some samples of social outcome targets. Now the decision-making on what to measure is given to the grant-holders as a self-defined exercise; this has posed certain ambiguities in the process.

**Table 7.3 Case D: Sample of outcome measurement report by an applicant (anonymous)**

First Full year of operation	Financial Year Ending 31st March			
	2014	2015	2016	2017
Number of people with improved access to (anonymous) service and amenities (classes, workshops, performances, cafes and events)	+	++	+++	++++
Number of people from deprived areas having increased participation in the arts and learning	+	++	+++	++++
Number of young people at risk of offending now engaged with leisure and learning activities.	+	++	+++	++++
Number of local people, annually, having more skills, knowledge, confidence and the ability to use these to the benefit of their local community through attending classes, workshops, work experience and volunteering	+	++	+++	++++
Number of people with ongoing mental health problems being employed/volunteering	+	++	+++	++++

Source: Developed by author

Differences made according to grant-holders' experience DGH01, as Development Manager of a grant-holder, said:

“I have been here, well, it is my 18th year working here. [...] has just reinvented itself as a charity. ... There is no history of any kind of commercial borrowing, we were secured until 2007. From then we have gone to a range of borrowing, £11 million from a commercial bank and roughly £4 million from Government (Scottish); the remainder of that has to be a commercial loan with [...] bank. [Case D] supported us to build our educational suite.”

### 7.3 Summary of key findings

Case D was born from and driven by change, evolving from institutional efforts initiated by the Scottish Government. This was driven by anticipated government budget cuts coupled with an expectation of growing third-sector independence. Having moved from the private sector (mainly from the banking sector), the members of the operational team have learnt how to lend and how to get the money back from the third sector. This was the first money-lending model in Scotland. After a third change of leadership, Case D developed a growth strategy, which highlights its development priorities and repositions it as a value-added intermediary with a mission to enhance “ideas and ability” and to make real change in the sector. Social financing

has also been identified as a unique strength in supporting the sector's growth, while resource alignment has also provided and identified key stakeholders, resulting, for example, in community capital loans attached to a corporate business.

Institutional partnerships have also appeared to be a strength, for example by initially assessing the funding applications for the [Case C] as a funding area expertise and monitoring community capital loans attached to a corporate business.

Customers' needs are heavily focused on by Case D. This was not only inherited from a private banking model, but also adapted with consideration of the specific needs of the sector and the increased understanding of such needs. In addition, trust has also developed in the sector, for example with Case D acting as an institutional guarantor for the third sector with regard to banking lending.

Governance has been seen not only in taking risks, but is also seen in a new relationship of "mentoring", which might mean a more trusting relationship. Learning is regarded highly and reflected as an ongoing process from daily operations. Although hands-on engagement has been increased, it seems, however, given its scale and strength, not to be best placed. Project visits and non-financial support, for example, with reference to professional organisational development in marketing or the public relationship development, have appeared not to be greatly needed by the grant-holders. The investment time has appeared to vary from two up to twenty years, with an exit strategy at the outset. Since the advent of the new leadership, in a developmental stage of implementing innovation, guided by the Growth Strategy, Case D has shown the following changes:

**Procedural changes:** It has shifted the return on investment from a top-down approach to a self-defined one with evaluation. Although the change resulted after considering feedback from grant-holders, it still appears to be challenging in terms of how to reflect accuracy and how to avoid bias in self-evaluation. Although being driven by the need for outcome measures, this has led to procedural change: for example, regular checks for financial viability of the accounts in dealing with the challenges in measuring outcomes.

**Standard changes:** With the new leadership, which is more in line with the corporate type of governance, there is added professionalism, starting from the composition of governance tasks and power delegation through to staff performance and its connection to remuneration.



Arguably, this might have had an impact on the performance both for Case D and its supported applicants. Overall, it might increase the professionalism of the third sector.

Personnel changes: Supported by the growth strategy, it was obvious that personnel changes have been significant both at strategic and operational levels. Geographically, Case D has opened an office in the Highlands.

Structural changes: Although there are data to demonstrate whether the lending has made an impact on structural changes in the sector as a whole, internally, however, Case D has made structural change, enabling the implementation of the growth strategy. In particular, investment and expanding a new department to grow capacity for development appear to be new elements. Meanwhile, it is also suggested that Case D highly values “human relationships”. In fact, the mission focus upon “ideas and ability” to make real change demonstrates that both are deeply rooted in human individuality as an agent for change.

# Chapter Eight: Cross-Case Analysis of the Four Studies

## 8.1 Introduction

Thus far, the four cases have been explored on the basis of themes identified in the literature review without theoretical analysis. The focus has been on the exploratory question: how do the Scottish funders apply VP (market) approaches to their funding-giving behaviour? In this chapter, the four cases will be analysed using the framework developed in the literature review, showing the meaning of different funding models in practice and action. The aim of this chapter is to present the similar and different attributes of the four funders. As such, the analysis also provides a basis on which to apply the empirical evidence within the conceptual framework with the intention of mapping out the funding characteristics of the four funders from an organisational perspective.

Accordingly, the chapter is divided into three main parts. First, it summarises the convergent and divergent attributes derived from the four cases. Secondly, it traces the underlying causes of the convergence and divergence features that have emerged. Thirdly, it demonstrates new elements that have emerged in the process, and provides insights into the meaning of these new elements.

## 8.2 The four cases: a thematic comparison

Comparing and contrasting the data provides similarities and differences from the four cases. Set out according to the thematic framework, the findings are encapsulated in Table 8.1(a,b). The overall findings suggest that the four case organisations have different shapes and different purposes, operate using different approaches, engage with different actors and are equipped with different resources. In this sense, individual factors such as funding type or whether business tools are (or are not) being adapted are no longer sufficient to illustrate the nature of the four cases, because distinct evidence shows that “business tools and techniques” are adapted by all four cases. The differences exhibit themselves in how they are adapted, given the different actors, motivations, purposes, objectives, funding activities and systems of governance. In addition, entrepreneurial investment approaches are revealed in all four, evidenced in mixed sources of resources being drawn in and the assessment of grant-holders on a business model rather than by funding application. The business models are more directed towards the needs and priorities of grant-holders, whereas funding applications cater more for the funders’ priorities.

**Table 8.1a Thematic Comparison Display of the Four Cases**

	Case A	Case B	Case C	Case D
	<b>Motivation</b>			
<b>1. Motivation and Value-orientation</b>	Making <b>sectoral change</b> (innovation); converging the resources for bigger impact	Driven by changes to become an <b>effective funder</b> for service users; making voluntary contribution	<b>Closing the institutional gaps in financial borrowing</b> ; addressing regeneration challenges	<b>Closing the financial lending gaps</b> by commercial banks; injecting private investment money to increase financial capacities
	<b>Value-orientation and funders' value stance</b>			
	Making impact through significant long-term funding and development support	Providing good and valuable service for individual service users	Community empowerment through support for step changes	Investing in ideas and ability to achieve social change
	Focusing on thematic areas with collaborative organisational development	Family wealth for developing better families	Collaborative efforts	From making step changes to supporting development and growth
<b>2. Governance in strategic balance and choice</b>	Mixed professional input and collaboration from private, public and third sectors (multiple source of funds, different funding models involving multiple actors)			
	Entrepreneurship and ambassadorship	Stewardship	Cooperative governance	Mentoring and stewardship
	Maximising investment effects, tackling social issues in a logical and thoughtful way, concerted and sustained support to develop capabilities, attracting new money, developing learning.	Prioritising themed approach to a niche service group, expecting a significant contribution to national outcomes, looking to make connection with the Scottish Government policy.	Contributing to and leading change through a novel model, supporting institutional financial equality for the community, encouraging physical development in the community, investing in growing and changing business models through transfer of knowledge and expertise.	Connecting finance to community development, supporting community development through organisational financing and capacity development.
<b>2a. Funding priorities and policies</b>	Organisations able to make sectoral changes; a central linkage organisation, model able to scale up	Service deprivation	Have capacity to deliver change business model	Capacity to repay the loan
<b>2b Project Selection</b>	Due diligence, business plan, and financial accounts	Online application – service change model, outcome measures; banking health check	Due diligence, business plan, financial accounts	Due diligence, business plan, financial accounts
<b>2c Monitoring</b>	Regular and systematic monitoring both replying on a system and people's close interaction to understand the insights	Shifting to use online application and monitoring system by using technology, encouraged to visit applicants but constrained by time.	Shifting to a central fund management system to capture data in a scientific and systematic way for evaluation.	Traditional application report system on regular basis but with a panel review of the progress and risk assessment; panel comprises field expertise in business development, legal, marketing and financing etc.

**Table 8.1b Thematic Comparison Display of the Four Cases (Cont.)**

	Case A	Case B	Case C	Case D
	Outcome measures (business tools applied)			
<b>2c Monitoring</b>	Balanced scorecard	SMART (Specific, Measurable, Attainable, Relevant and Time Bound)	Four levels of strategy balancing social, economic, environmental and cultural change (assimilating commercial bank lenders but adapted to these four measurements)	Central loan management system (assimilating the commercial bank lenders)
<b>3. Engagement Process</b>	Active Agent – Reflective Engagement – internalisation, externalisation and socialisation (exchange of knowledge, expertise, training, development and networking)			
	<b>Hands-on</b>	<b>Shifting to hands-on</b>	<b>Shifting to a closer relationship</b>	<b>Shifting to a closer relationship</b>
	Systematic learning influenced by the founder; human factors; hands-on	Change led by the Chairperson; human factors; started as hands-off, then shifting to hands-on	Initiated by the original funding proposer; human factors; started with administrative role, then shifting to a closer relationship	Initiated by Labour Party politician; human factors; started as traditional private banking administrative role of arm's-length relationship, then shifting to a closer relationship
	Using new tools, developing new relationship with funding recipients, and leverage of tangible or intangible resources. Holding the recipient accountable – increased monitoring and measuring of accountability and deliverables			
<b>4. Entrepreneurial Investment Approaches</b>	Mixed resources (government, cooperatives, philanthropists, peer funders)	Single business endowment	Mixed resources (public lottery and funder)	Mixed resources (government and banks)
	Grant-donation	Equity – grant-donation	Grant and loan	Loan
<b>4a Appetite for Risk-taking</b>	High	Low	Medium-high	High
<b>4b Investment condition</b>	Core development of the organisation, contractual deliverables at organisational levels	Funding agreement, focusing on service users' development report	Repayment ability and fitness of the business model, agreed impact measures	Repayment ability in financial terms; occasionally, providing lower interest rate loan depending on social returns
<b>4c Innovation models</b>	System innovation	Service innovation	Business change model	Innovative financial model
<b>5. Exit Strategy</b>	Exit at the point when becoming independent and sustainable.	Exit at the point when project is completed	Exit at the point of last financial repayment.	Exit at the point of last financial repayment.

Source: Developed by author

Although Case B is established as TP but moving to the new philanthropy zone, in reality the change trajectory has demonstrated Case B becoming more or less like a VP in the development process while delivering its changed strategy in order to be more focused and to be more driven by outcome-measures. The strategic change has led accordingly to changes in other areas: for example, internally in governance, resources allocation and staff structure; externally in

funding conditions, terms and increased interaction with grant-holders. More attributes of convergence and divergence will be discussed in this chapter on a thematic basis.

It is also interesting to note that, despite the differences in funding modes, governance and value orientations; it has also been found that there is a tendency and desire for the four organisation to seek a mutual development area and collaboration mechanism for working together towards social problem solving. So far, Case B has failed to engage with the Scottish Government, although attempts were made. The Scottish Government supports the other three strategically. Amongst the other three cases, collaborations are evident: in particular, Case C and Case D have exchanged resources, knowledge and expertise in decision-making.

### 8.2.1 Motivation and value orientation

The four associated philanthropic motivations and value orientations were discussed in Section 2.6.1. The findings suggest that no single case fits into only one of these classifications; rather, the situation is complex. The four classifications are limited to explaining emerging phenomena of funders' blended motivations and their impact on value orientation. Understanding the multiple dimensions provides a reason to depict the funders' resource distribution model.

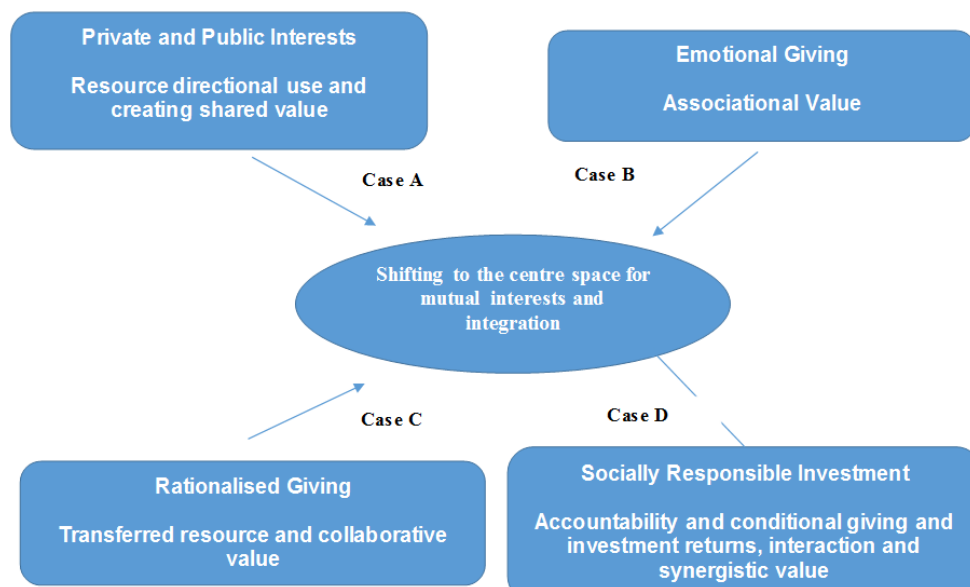
The empirical research suggests that the four organisations intend to shift to a central place, seeking mutual interests and integration. Significantly, actors and resources are convergent from the three sectors in dealing with social problem solving. For example, they have all shifted from being emotional to rational funders; all are interested in engaging with multiple stakeholders for example the Government, public and private sectors; all have increased requirements regarding accountability. Shifting means engaging with new actors in new activities, which will determine the final value orientation. The extent to which they have engaged (or how they will engage) with their identified actors to create value differently from the four case organisations is discussed below.

- Case A leveraged the resources from the private, public and third sectors. This has determined Case A's motivation towards making sectoral change with a view to demonstrating shared value creation. Hence, directional use of resources is evident as a strong element in Case A focusing on the use of the resources for targeted social problem areas, with collaborative effort. Case A believes that a social problem requires socially joined-up efforts by focused action and longer-term resource commitment.

- Case B began merely wanting to be an emotional funder, driven by altruism. However, in its development process, it has shown great interest in collaboration with the Government and peer funders; although these efforts have not reached fruition yet, the attempts have been made. This is why associational value is featured in Case B.
- As a mixed loan and grant provider, Case C displays both emotional and rational motivations, attempting to achieve a balance between them. Given the larger percentage of the loan against the grant, Case C inevitably has motivated itself as a step-change maker, which means that the resources being channelled will be expected to create transformational change through collaboration.
- Case D, distinctively as a loan provider, seeks return on investment and the ability of applicants to repay as its core driving force and concern. This determines that Case D shares in the success and failure of all the applicants. This has placed Case D in a strong position to hold its applicants accountable and to set conditions for giving the loan in order to maximise the return on investment.

Thus, Diagram 8.1 suggests the development of a motivational and value-orientation model based on the four funders. Based on the four areas of associated motivation and value orientation, quadrants are developed to position the four cases according to the indications of different value levels: namely, directional use of resources and creating shared value; transferred resource and collaborative value; and synergistic value. This diagram indicates a change trajectory from emotional giving to rationalised giving. Following this change, one might argue that the funders' value might be likely to change accordingly, from emotional attachment (termed “associational value”) to conditional giving (termed “transferred resource value”). Driven by increased effectiveness and investment returns, the actors from three sectors join up and work together pursuing an understanding of new engagement in socially-responsible investment and the associated challenges. This shift can be described as towards increased interaction and synergistic value.

Diagram 8.1 suggests a tentative shifting movement of all four cases across the four domains: altruism; private and public interest; responsible giving; and socially responsible investment. Situations in the different domains may be driven by different motivations and lead to different value stances through resource distribution. The proposed model aims to place the characteristics generated from different funders on a scalable map. This would be helpful for practitioners and scholars, developing further research and debate as well as for alternative funding model design.



**Diagram 8.1 Findings from the Four-Model Comparison – Motivation and Value Orientation Model**

Source: Developed by author

### 8.2.2 Governance and decision-making

As noted in the section on resources, an increasing number of professionals from the private and public sectors have been moving to the third sector, to become members of the Boards of Trustees and operational teams. In addition, there is a heightened desire to measure outcomes and hold the recipients accountable with regard to the delivery of services and value. However, characteristics of governance appear to be different in the four cases, due to the actors' motivational values, strategic priorities and objectives.

Case A arose out of an individual entrepreneur's efforts. In this organisation, the ultimate responsibility for portfolio investment lies with the Board of Trustees, and the daily operational powers and decision-making are delegated to the CEO and the operational team. Therefore, the role of the Board is very much one of shaping and agreeing on the strategic direction – acting as an ambassador to advocate for strategic relationships and resources.

Case B has changed its governance away from merely being an administrative funder. Initially it attempted to cut administrative costs and only play a decision-making role for funding applications. However, strategic changes have impacted on its governance style. Outcome measuring has pushed Case B to engage more deeply with grant-holders, which has led to an organisational structural change by appointing the first Development Manager. This has transformed its governance towards a stewardship style, with daily operations and development now delegated to that staff member. This also allows Case B to engage more proactively with

the third sector, gathering understanding and information for further decision-making and changes when needed.

Case C intended to establish a cooperative style of governance at the outset. It feels proud of the novel governance model for three reasons. One, it allows the resources to be pooled together. Two, it retains fairness and effectiveness in its operations. Third, it enables the collaboration of institutional funders. Instead of individual volunteers acting as Trustees for the funders, a consortium is composed of representatives nominated from their partners. Forming a consortium in one way enables collaborative decisions in the best interests of Case C; on the other hand, however, a role duality is inevitably created for the representatives, who also represent their own organisations. Therefore, Case C is emerging as a third party to balance powers and responsibilities between the different actors such as the original funders, the sponsors and the network organisations.

Case D aims to increase the third sector's financial capacities. Although it assimilates a private banking model of financial lending, it does not manifest cooperative governance. As an independent entity, its operation has been strategic, focused on its ultimate legal responsibilities. Specifically, each trustee is delegated a role by the Chairperson, linked to one area of strategic development of the organisation. This might be classified as stewardship governance. However, there is a rare element to be seen in the system of governance. The Chairperson and CEO have formed a mentoring agreement. Normally this does not happen in such a situational relationship between supervisors and those supervised.

Not only is due diligence carried out in compliance with the OSCR regulations, but also financial screening has been applied to the funding selection process by all the funders. Although Case B didn't use the term "due diligence" as frequently as the other three cases, it has provided evidence of checking financial status, current bank account, financial and other track records of past performance. This pattern has suggested a change in assessment processes, with a more holistic evaluation.

Instead of development priorities set by the funders, grant-holders are required to provide a strategic business development plan rather than an interventional project application, which has a short time-span. There are fundamental differences between assessing a business plan and a project proposal, apart from time-span. The differences are clearly shown as follows:



- a) Sources of information are from multiple channels, which thus provide a fuller picture towards an understanding of the strengths and weaknesses of an applicant;
- b) Assessment is fluid rather than static and fixed panel decision sessions at a single cut-off point. It means evaluation is more dynamic and close to reality, with authenticity;
- c) Contents to be assessed are diverse, from paper submissions and bank accounts to stakeholders, events and observational assessment (for example, word of mouth, leaders' reputation in the sector, and record of accomplishment). These all play vital roles in the assessment process.

More importantly, in contrast with the traditional assessment, there is a sharper focus on bank statements and financial accounts, which provides an “organic” rating of financial performance. In terms of assessment, apart from Case B, the other three cases are more interested in assessing the business plan as a holistic package: they are more interested in overall organisational capacities. Case B, on the other hand, focuses on project plans and service delivery, and on how individual service users will benefit from the services and support.

On common ground, all four funders are relying on their applicants to deliver their outcomes and have impact through their front-line service delivery. This attribute has determined that what kind of relationships and how they are built up with applicants are crucial elements in the governance. However, differences among the four cases are apparent in matters of prioritisation and eligibility:

- Case A displays a more systematic approach in dealing with applicants. Because it treats grant-holders more as its partners signing a partnership agreement, in practice Case A sets its objectives and outcomes in tandem with the grant-holders. This relationship is strongly predicated on shared success and failure. Thus, the findings suggest that project selection is very specifically targeted, both geographically and with regard to service orientation. Portfolio investment is one of the typical examples of its approach to ensuring aggregated impact, sharing good practice and learning from failure. Accordingly, priority is given to those applicants who are capable of scaling up and who have influence within local communities.
- Case B specifies its service group with theme-based foci. Governance and leadership focus more on evidence-based and informed decisions with professional knowledge

input, rather than, as previously, based on an individual's impulse. Priority is given to those who are able to provide (new) services to deprived areas.

- Case C focuses on identified deprived local authorities in Scotland. It operates with a cooperative style of governance, as discussed early in this section. Priority is given to those who are capable to deliver a business model focusing on change.
- Case D focuses on organisations' financing ability, specifically the ability to repay loans; for example, it has a high proportion of investment being channelled to renewable energy creation or environmental protection ventures, and to physical assets such as property purchases.

Table 8.2 outlines the main attributes of A comparison of the four funding models. The selected themes for comparison are surrounding each funder targeting issues; funding priorities; funding assessment approaches; the decision-making group; funding time; the basis of the assessment criteria; the application process; and conditions. This table suggests that there is no discrepancy in the decision-making process between the strategy set and its operation in practice.

### 8.2.3 Engagement process

The findings suggest that although Case B's traditional grant-giving began by aiming for an arm's-length relationship with grant-holders, in the process of implementing strategic change, particularly around outcome measurement, it has been driven to be more hands-on, shifting from a transactional role to a more relational one. Case B has also increased funding terms from 2 to 3 years with a view to extending this to 5 years because of its strategic change, as illustrated in Table 8.2. Even though Case B wants to increase project visits by Trustees, this has not moved through the transitional stage yet, even with the appointment of the first development staff; it remains fair to consider that it remains in a **"patronage relationship"** with its grant-holders.

Case A has set a very clear approach from the beginning by tackling an identified pitfall of traditional grant-giving; it positions itself as more "relational", with a systematic hands-on approach using pro-bono support at each step of development both within and outwith the sector. Due to its aim to create shared value, it might be fair to characterise Case A as entering in **"engaged partnerships"** with its grant-holders, focusing on a single investment area – youth employability.

Case C acts as a lender. However, its prime motivation is to support access to finance on an equal footing to that enjoyed by private business, thereby developing community

empowerment and ownership. Due to its funding package blending loans and grants, it retains an administrative and advisory relationship with the third sector. Therefore, it is reasonable to depict it as a “**compassionate lender**”.

**Table 8.2 A comparison of the four funding models**

	<b>Case A</b>	<b>Case B</b>	<b>Case C</b>	<b>Case D</b>
	<b>VP Grant</b>	<b>Grant but applying business methods</b>	<b>Mixed loan and grant</b>	<b>Business loan</b>
<b>Funding Targeted Issues</b>	Tackling sectorial challenges; thematic approach focusing on one area's development	Gaps in service provision, targeting to support one area's service development	Addressing financial inequality	Addressing financial gaps in the third sector to support sustainability
<b>Funding Priorities</b>	Organisations having capacity to effect change	Supporting organisations to support deprived areas (social, economic, demographic, geographical, service)	Physical asset development; ability to address regeneration issues through innovative solutions.	Shifted to provide tailored financial solution for applicants
<b>Funding Assessment Approach</b>	Organic; ongoing basement business model; annual account; risk assessment, ongoing live interaction	Online application; financial health-check; bank account; annual account, project focused	Business model for change; financial status, capacities for change, risk assessment	Business model assessment, annual accounts, ongoing basement, risk assessment
<b>Decision-Making Group</b>	Business Performance Advisor, advisory group (internal bodies)	Assessor, funding decision making panel run by Trustee Board (internal bodies)	Mixed internal and external bodies, external business expertise and decision making panel with mixed expertise's	Mixed internal and external bodies, internal assessment group, different levels' decision making, decision making panel
<b>Funding Time</b>	5 to 10 years	2 to 3 with a possibility to extend to 5 years	Up to 5 years	Varies from 5, 10 to 20 years
<b>Assessment Criteria</b>	Focus on outcomes and viable business model with potential to scale up and duplicate	Focusing on outcomes and project delivery; good management and governance; staff development; relationships with service users; operational capacities	Focus on viable business plan and risk assessment	Focus on sound financial accounts and viable business plan with potential capacity for growth
<b>Application Process</b>	Ongoing	One-off	Ongoing	Ongoing
<b>Conditions</b>	Non-repayable on the financial aid, meeting agreed social and financial outcomes; organisational becoming financial independent	Non-repayable on the financial aid, delivery of the project outcome, service user's satisfaction	Fixed interests as base rate for the loan, plus interest applied, no security holding	Applies arrangement and commitment fee (varies); interest rate applied

Source: Developed by author

Case D has oriented itself around financial expertise with resources to fill in financing gaps for community organisations. This has reinforced its relationship with the third sector, for example, by visiting projects on a regular basis and more actively participating in debates within the sector and at various events. However, given the large number of grant-holders and multiple

investment areas, it has been challenging for Case D to provide the same level of hands-on support to its grant-holders as evidenced in Case A. However, in terms of ways of working, Case D plays the role of “institutional guarantor” for its grant-holders, or provides loans without deposit. To this extent, Case D can be considered a “**concessional lender**”.

It is interesting to note from the findings that requiring performance management and outcome measurement are seen in all four cases. However, the approaches adopted are different. Case A is more systematic, combining quantitative and qualitative approaches in adapting a “balanced scorecard” method, linking outcomes to organisational targets. Unlike the other cases, although grant applicants propose initial outcomes, Case A negotiates and agrees joint outcome measurement for each project. Meanwhile, Case A attempts to align its objectives with those of the recipients.

Case B is still at the stage of finding its position on how to support measuring outcomes in the social sector, which is a challenging task. Although Case B has suggested SMART techniques (shown on its website) to the recipients as a form of outcome measurement guidance, due to the vague indicators constant challenges prove to the trustees that simply applying a business project management tool to the third sector is not sufficient: it requires more adaptation to make it fit.

Case C sets specific outcomes relating to the macro-environment: for example, job creation, environmental or other social outcome indicators. However, Case C remains at an early stage of development in terms of how fit or robust the measurement approaches are. Inevitably, outcome measurement poses challenges for all four cases, given the nature of social outcomes, which take a longer time to become apparent or to move from an intangible mode to a quantifiable mode.

Case D has changed methods of outcome measuring twice. The current metrics measurement proposed by the grant-holders, by agreement, and monitored by Case D. This might also present a challenge in terms of to what extent the measuring is valid by self-evaluation, as no doubt involving assessment bias, as Lyon (2010) points out. Thus, Case D remains at the developmental stage, combining micro- and macro-level attributes in order to achieve outcome measures; this requires more effort and expertise going forward.

**Table 8.3 Comparison of Engagement Processes in the Four Models**

	<b>Case A</b>	<b>Case B</b>	<b>Case C</b>	<b>Case D</b>
<b>Assessment Approach</b>	Due diligence	Due diligence	Due diligence	Due diligence
<b>Basement Process</b>	Ongoing process, starting from the first communication (telephone or email enquiry) with performance advisor	Advice and provide clarification, decision made by the Trustee Board	Decision-making Panel informed by recommendations from the funding assessment team	Assessment Manager and decision-making panel
<b>Role in Engagement Process</b>	Close and deep engagement, hands-on	Hands-off advisory shifted to be more involved in the development front through increased site visits	Administrative role	Advisory but closer relationship with recipient
<b>Assessment Processing Time</b>	No deadline, open application, requiring business plan articulation rather than lengthy documents	Two meetings per year to do the assessment	6 months turnaround period, 20 pages of applications	Up to 12 months of verification on all the documentation, lengthy
<b>Engagement Method</b>	Tailored venture capital approach, driven by outcomes and portfolio approach, providing advisory support	Engaging in clarification of service innovation	Workshops, and advisory support	Mirror bank managers' engagement model, but shifted towards understanding needs and challenges, acting as gateway towards loan finance, with more support on business development

Source: Developed by author

Business tools or techniques have been applied in all four cases, but variations are found due to the different nature and purpose of the adoption and adaptation. In addition to the due diligence method, Case A has assimilated the venture capital investment approach. Case B has applied investment skills and competencies in order to maximise capital gains from the investment portfolio. Case C deploys a risk management system adapted from the private sector; and Case D strategically employs commercial banking tools in its daily operations, but tailors this approach in consideration of third-sector contextual factors such as understanding the needs of service users. To sum up the similar and different characteristics, Table 8.3 displays the features of the engagement process for the four cases.

#### 8.2.4 Entrepreneurial investment approaches

The four cases have shown different sources of financial income. Case A has the most mixed package of private, public and third-sector finance (including peer funders). Government, as one of the major providers of finance, has provided almost 80% of the money to Case A. The Scottish Government has also provided finance to Case D from the beginning. However, Case B's funds consist solely of donations, endowments and legacies from individual philanthropists from their corporate gains. The source for Case C has come from institutional efforts by combining capital sums from both private trusts and public funds (the Big Lottery). Initiated by the Scottish Government, Case D's financiers are the four major commercial banks in addition to an ethical bank in Scotland.

As Anheier and Leat (2006) have argued, the privacy of the endowment fund of a funder implies private control and autonomy over the resources. However, this research has suggested that the mixed source of the money (fund) has changed the dynamics of the "ownership control" of the funders, which does not remain as "elite" control any longer. In fact, apart from Case B, mixed sources from the private and public sectors are input to all the cases. Even in the case of Case B, the original donor is deceased, so that element of control has gone. This has pushed the TB into playing a bigger role in terms of "collective control" over the resources, in all four cases without donors' direct interference.

Inevitably, donors' involvement is influential in certain ways. In Case A, convergent evidence shows donors' involvement has appeared to be more strategic, for instance agreeing on the objectives and outcomes at the outset, but neither being involved in the Board of Trustees nor in the decision-making process for the resource re-allocation. In Case C, although donors sit on the Board of Trustees, the decision-making assessment on resources is delegated to a specific panel in practice. In Case D, donors do not even sit on the Board of Trustees, but acting as a risk control body, separate from the Government, the representatives from the five banks have formed an assessment panel for a final signing-off of sums above a certain investment level.

The mixed sources of funds have also shaped different types of partnership and brought in different expertise. Even though Case B is founded on an endowment legacy, individual actors for change, resulting in new intakes of public trustee recruitment, have increased control of the resources. Accordingly, performance has been more professionalised: for example, one Trustee with deep experience in the investment sector has led changes *vis-à-vis* Case B's external

investment company, resulting in a capital gain of more than 25%. According to the Chairperson of Case B, the Board of Trustees could choose to sit on a comfortable level of financial endowment without making extra efforts to increase its financial capacity; however, the evidence shows that this change is driven by the Chairperson, not only relating to resources but also with regard to the strategic direction of Case B.

Similarly, with Case A, founded by a senior corporate banker, there was no pressing need for that leader to establish a new organisation. Yet after a six-month sabbatical trip to Australia, the founder marshalled resources from the Scottish Government, high-net-worth individuals, and corporate funders and charitable trusts. Motivated by an impetus for change, coupled with intellectual drive, Case A intends to create a shared value model by converging actors and resources for social problem-solving.

Case C has resulted in institutional efforts by which funders attempt to fill the gaps in financial access for the third sector in Scotland, mainly to cultivate the investment readiness of Scottish communities. Again, such an initiative was not driven by resource shortage but by the original actors who expressed their passion by piloting a new approach to making a step-by-step change, in particular providing finance for Scotland's third sector and developing financial equality at the institutional level as opposed to commercial borrowing. For example, the aim set down is to increase the borrowing capacities of the Scottish community. The experienced senior officers working in the field and witnessing the evolution of the sector have driven this forward: for example, detecting changing needs and emerging opportunities has shaped a basis on which to base a new approach, resulting from joint entrepreneurship efforts at an institutional level.

It is very interesting and significant that the Scottish Government initiated Case D. One entrepreneur-investor states boldly that the Scottish Government exhibits a type of entrepreneurship government, which pushed the four major banks<sup>32</sup> to allocate the money to set up this new funding scheme. The interview suggests that a leading politician originally triggered this bold action.

In terms of competencies, the four cases have all brought mixed professional input, in particular in the composition of the Boards of Trustees. The fundamental orientation of each case is slightly different. For example, Case A was deliberately designed to bring together knowledge, expertise and skills from the three sectors; Case B's Board is slightly more oriented toward

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<sup>32</sup> At the outset, there were only four banks that had invested money. The fifth one joined in afterwards.

private sector people – investment experts in particular – which has contributed to maximisation of the financial resource. Case C's Decision-making Panel comprises a wide range of professionals with mixed backgrounds, although with a small operations team. Case D's Board of Trustees is more in line with expertise in change management and strategic growth.

In terms of staffing, all four cases have undergone change. Case A has increased the number of operational team members and the founder left the organisation after the first five years, as planned. Case A intends to develop a model, which grows independence, specifically at an exit point for recipients. To address this point, the founder has voluntarily departed from the organisation at the five years' point according to its original staffing model design, so the leadership can be passed on to a new leader.

Case B has appointed its first Development Manager. Case C has changed the make-up of its operational team, while Case D has completely transformed its leadership (new Chairperson and CEO) and strategic team (new Trustees) and expanded its operational team (created a few new posts including Chief Development Manager and opened an office in Inverness).

To conclude, although mixed sources of finance are seen in all four cases, divergence is evident, suggesting different characteristics in resource allocation. For example, Case A intends to create shared value in collaboration with resources from all three sectors in setting its strategic direction; Case B is typified by change towards the use of professional skills and knowledge; Case C is based on institutional partnership in a corporate style; and Case D is initiated and supported by, but independent of, the Scottish Government in terms of decision-making. Due to the involvement of the banks, its style originates in "commercial banking", but has been customised to the lending style in the third sector.

Evidently, the differences are derived from the input of individual leaders (entrepreneurship type), and, therefore, for example, affect decisions on who to align with, with what purposes and objectives, and how to manipulate the resources for achieving the shared values. In all four cases, commonalities are manifested in professional input, and with a large pool of money. Fundamentally, the mixed professional input has provided different perspectives on assessing the current operations, which thus has led to change. Although funding policy has served as a central starting-point for the marshalling of resources, the frequent changes in funding policy have suggested an active response to the shifting demands on the ground. Thus, resource



allocation can never be static but is an ongoing fluid process, interacting with its recipients and key actors.

The four cases regard innovation highly. However, their ways of interpreting innovation and applying innovative elements to the process are different. According to Dees' thinking (2001b: 3) on innovative approaches, innovation is seen in the four cases, each of them piloting a unique model in Scotland but with a different focus and different combination of financial resources dealing with different social causes.

Born itself as an innovative outcome, Case A perceives innovation as “radical change” and “systematic change”. With innovation embedded in the whole organisation, Case A has specifically articulated its aim and role to make sectoral change. By doing that, a systematic structure has been built encompassing aggregate financial and non-financial resources to support innovation. The resources have been transmitted to the recipients through an engaged platform where a shared goal was shaped, and interaction and learning has taken place on a regular basis. The platform is for idea fertilisation, network resource sharing and understanding different perspectives.

In addition to the mechanism and structure building, in order to enhance innovative capacities Case A has also fully engaged in the development process for problem-solving, with early intervention in an operational issue and directing extra supporting resources. Internally, Case A focuses on an innovative product in offering a tailored VP funding model; externally, Case A creates an environment for incubating innovation by putting expertise, resources and idea fertilisation together. Case A is more interested in systematic innovation; therefore scale-up and linking or creating hubs with aggregated efforts for change are highly regarded in project implementation. Dees' (2001b: 3) five innovative combinations by entrepreneurs are exhibited in Case A: “introducing a new good or quality of a good” (introducing the venture capital approach); “utilising a new method of production or distribution” (portfolio-approach investment); “taking existing products into new markets” (scaling up successful models); “drawing on a new source of supply” (identifying new donors, even working with peer funders); and “creating a new form of organisation or industry structure” (born as a new organisation, developing structures for sectoral learning).

Although Case B is interested in innovative service for children and families, innovation has been perceived as: service provided to new groups of service users; new ways of serving children and families; new geographical areas; and identifying new issues for improved

services. Although Case B continues to work in a traditional grant-giving mode, it has undergone two major strategic changes, resulting from self-criticism and seeking funding effectiveness. This has suggested an incremental change. In the funding policy, innovation is encouraged and in Trustees' conscious efforts. However, as a funding organisation, Case B is still at an exploratory stage with regard to reshaping its funding model. Although "innovation" is proclaimed – and stated as a funding criterion on the public website – to identify an appropriate strategy or operational model, time to fully implement the "innovative strategy" seems to be problematic.

Both Case C and Case D are more interested in innovation in business models, specifically their viability. Ultimately, ability to repay loans is the major concern. Therefore, business model innovation and how to support viability are the key priorities.

Risk-taking is shown in all four cases, although the level of risk taken is different. Evidently, individual entrepreneurs act as key people to propose taking a risk and influence a collective decision at the organisational level.

In Case A, the original founder aligned with support to take risks by providing longer-term funding, which is embedded in its funding model design. Risk is also designed into the model. Risk is something Case A staff members are highly aware of and well experienced in from their past experience. Therefore, it is not something perceived of as daunting but as part of daily practice, and they proactively engage with how to mitigate and manage risk for a positive effect. High levels of collaboration are seen as a means of mitigating risk for Case A: as success is shared, failure is shared, and accordingly risk is shared too. Based on this logic, Case A regards information transparency, sharing responsibilities and resources for problem-solving in each stage of development. For example, involving resources from three sectors, a portfolio approach is used to promote the overall success rate. Although risk for Case A seems to be high at the outset, due to its collaboration and sharing principles, the risk has been managed down to a "medium-high" level with its high money investment. Hands-on engagement has also been used to mitigate the risk. Meanwhile, longer-term money has also mitigated the risk level by allowing better understanding of the recipients and potential problems.

An individual change-maker, the former lawyer of Case B, drove change initially. The intake of the new trustees by public recruitment has led to structural and strategic change, driven by entrepreneurial leaders on the TB. The risk is shown at two levels: firstly, replacing the previous investment professional by appointing a new investment company for a higher capital

gain from the reserves, although this is based on professional knowledge and competence gained from private investment; secondly, strategic changes focusing on niche groups and demanding outcomes have driven Case B to move out of its previous comfort zone, and this has resulted in it being faced with a medium-high level of risk as well.

Risk-taking for Case C and Case D lies in loan financing. The risk-takers appear at the institutional level. For example, in Case D, although initially the banks felt they were being pushed by the Scottish Government, and felt the risk of lending money to the third sector without security was extremely high, given the amount the banks invested, it did not matter much. In another words, the banks were in a way prepared to lose the money. Nevertheless, the reality has proved that it was wrong to be negative. Repayment has hit the target; the fall-out rate is zero. Surprisingly, risk-taking by the banks has been rewarded by the commitment of the third sector and social entrepreneurs. This was commented on by the lending officer, who noted that social entrepreneurs have made full efforts to repay the money borrowed, which is different from the private sector just “handing in the key” and “walking away”.

Case C’s risk-management approach lies in its alignment. For example, aligned with grant-giving, it provides a base for a financial capacity to grow revenue for repayment, while, on the other hand, aligning with the available knowledge and expertise to make sure of a correct offer to lend finance. The assessment is based on the body of rounded knowledge from different professional inputs. To start with, the initial assessment is completed by Case D, relying on its sector experience and expertise in lending.

Although it is hard to compare loans against grants in terms of the level of risk-taking, all four cases are characterised by substantial risk, since services are not delivered or directly controlled by the funders; this has posed another level of accountability and responsibilities towards risk assessment and risk management. Whether the money is repayable or non-repayable, given the large amounts provided by Cases A, C and D, all the risk seems medium-high.

Case B’s level of risk may also be judged as “medium-high”: although the smaller amounts of funding may not position it at a high level of risk, its hands-off approach and lack of outcome measurement mechanism in controlling the process might make it prone to a high level of risk.

To sum up, driven by entrepreneurship, either individual or at an organisational level, risk-taking is medium-high as a common thread in all four cases. However, different approaches are taken to mitigate the risk. For example, Case A uses a sharing and engaging alignment

strategy. Case B uses its professional competence working with its knowledge strength transplanted from the private sector to the third sector. Case C and Case D rely on well-informed decision-making and areas of expertise. Table 8.4 indicates how risk-taking and mitigation differs from investment priorities, investment patterns and expected changes.

**Table 8.4 The Four Models: Comparison of Investment Features**

	<b>Case A</b>	<b>Case B</b>	<b>Case C</b>	<b>Case D</b>
<b>Investment Priorities</b>	Supporting innovation and a model for change at the sectorial level	New service groups, new services, and services for new areas	Thirteen regional development areas, implementing a change business model	Capacity to scale up and develop physical assets
<b>Investment Patterns</b>	Infrastructure building learning hubs, capability to link local organisations, new business model such as in enterprising model by earning income, new ways to engage with service users	Directly benefiting service users and their carers	New model of community development such as a “social place” café and healthy eating, supporting fair trade, women’s empowerment	Services in social care and sports, Childcare, community development, financial investments, arts and culture , energy and renewables
<b>Expected Changes</b>	Mind-set and behaviour changes, ability to see change demonstrating from a portfolio approach with aggregated evidence	Seeking changes in service users living conditions	Creating jobs, environmental and social outcomes for a better community	Low failure rate in terms of ability to repay the loans, developed financial capacities, "pushed" to learn how to use a business model to manage an organisation in the third sector

Source: Developed by author

### 8.2.5 Exit strategy

The use of the phrase “exit strategy” is seen in all four cases, but with different interpretations. Case A expects that at the exit point, grant-holders would become sustainable and independent. Case B starts to look at extending funding terms so that at the exit point, grant-holders would be ready to implement their innovative services. Case C expects that at the exit point, grant-holders have completely implemented the business change strategy and become financially viable. The same applies to Case D. It expects the grant-holders are able to pay back the loan and become financially independent. Instead of exit at an expected point, changes are exhibited in four cases. Table 8.5 shows how the changes or influences are involved in the pressures or social norms, which leads to the isomorphic conformity, displaying the identification of four levels of conformity.

Evidently, changes are shown in four areas, developing towards an organisational norm or conformity. For example, personnel-wise, cross-sector professional input has been brought in to the four cases, both at the strategic and at the operational management levels. Changes in personnel have also shown in leadership change (Cases A, B C and D) and staff management structure change (Cases A, B, C and D), based on the developmental needs of the four cases.

**Table 8.5 Isomorphic Conformity Discovered in the Four Cases**

	<b>Case A</b>	<b>Case B</b>	<b>Case C</b>	<b>Case D</b>
<b>Personal Conformity</b>	Expanded team, mixed input, exit strategy	New trustees and new employee, mixed input of the Trustee Boards from public recruitment	Mixed input	Mixed input, leadership change and expanded team
<b>Procedural Conformity</b>	Hands-on engagement	Increased levels of hands-on engagement		
<b>Structural Conformity</b>	Breaking down boundaries between the private, public and the third sector	Internal organisational structure	Financial structure and community development	Financial structure and community development
<b>Categorical Conformity</b>	Moulding forces into homogeneous forces, assimilating resource distribution model from each other: for example, outcome measures and funding assessment			
<b>Initial Change Agent</b>	Individual entrepreneur	Individual entrepreneur	Individual entrepreneur with institutional funder	Individual entrepreneur with the Scottish Government

Source: Developed by author

However, those changes are not guided by any existing funding/organisational policy, but are more in line with an individual entrepreneur's beliefs and values. For example, the founder of Case A, who left the organisation in year five, believed in an exit strategy and set the model for others. Case B's new Trustee has spotted an investment technique problem, and has aligned with other Trustees in an attempt to make Case B more effective and accountable. Case C has had a minor change in management structure: due to a central role in linking funders, the assessment panel and the applicants, the management office has been empowered with more leadership responsibilities. In doing that, the previous officer has been promoted to a senior position in the initiative. Case D has gone through three leadership changes. It is only with the third (current) leadership that a growth strategy has been established for a new stage of development after ten years' experience in lending money to the third sector.

Procedure-wise, given that due diligence is required by OSCR, driven by outcome measures, all the case organisations have changed the normal procedure through assessment approaches. Because they need to adapt to the changes happened within the sector and with their applicants. Typified by Case A, it is strongly oriented in hands-on engagement by its original design. Cases B, C and D all show a gradual change to an increased hands-on engagement with grant-holders.

Structure-wise, due to the mobilisation of resources, clearly the four cases have shown both ethos and efforts to be evident in bringing the efforts of the three sectors to the funder to create social problem-solving. However, each of the cases has applied a different approach, based on its strength and expertise and its purpose. Inevitably, the changed input combines with hands-on engaged support, and potentially this might lead to a gradual structural change in the sector given the blended value, culture, working style (working standards), behaviours and newly forged relationships.

Clearly, there is evidence in the four cases of demanding outcome measures as the grant-holders have been pushed to adapt different working methods: for example, considering business approaches, and coming up with a viable business model, financial planning with a projection on commercial income streams, innovative business models, with a focus on independence from funders. Inevitably, the new funding criteria and new assessment approaches have made both funders and funding-recipients change, i.e. think differently, behaviour differently and act in a different way in order to meet the new standards and new conditions.

### **8.3 Conclusion**

#### **Convergence and divergence**

This research has studied four different funding models in Scotland. Although Case B is used as a comparator for the three novel approaches, all four cases are studied to assess the rationale of the approach (motivational value) and the degree of convergent and divergent features amongst the four approaches. Surprisingly, Case B started as a traditional model but has shifted to a new area, which shares convergent features with the other three cases in many respects: for example, shifting from emotional giving to rationalised giving, being more hands-on in engagement, demanding outcome measures, extending funding to several years, shifting to a mixed professional input both on the Board of Trustees and at the strategic and operational levels, and shifting from being a mere administrator to being a more engaged developer.

It is interesting to note that the four cases have all applied business techniques and concepts in their strategy and practice. Significantly, despite the different funding modes, the convergence is seen in the four funders moving to a central zone, exhibiting an isomorphic change. For example, changes are discovered in the conceptual themes: compound motivations and value stances; mixed resource allocation; due-diligence selection; a fluid, organic and dynamic selection process; hands-on and increased engagement with grant-holders; longer-term grants. A changing relationship is found in all four cases. To sum up, the four cases are related to four types of relationship, as in Table 8.6: Case A (“engaged partnership”), Case B (“patronage relationship”), Case C (“compassionate lender”), and Case D (“concessional lender”).

**Table 8.6 Funders’ Giving Models**

<b>Incentive Lender</b>  Provides seed grants to grow viable business plans for developing financial independence  <b>Compassionate Lending [Case C]</b>  <b>Business Model Innovation</b>	<b>Flexible Lender</b>  Provides unsecured loans using a tailored financing approach.  <b>Concessional and syndicated lending [Case D]</b>  <b>Business Model Innovation</b>
<b>Gift-giver</b>  Provides gifts without expectation of repayment, but emphasising deliverable social objectives  <b>Complementary and patronage grant-giving [Case B]</b>  <b>Service Innovation</b>	<b>Cash Mentor</b>  Provides finance and enhanced support by acting as an experienced and trusted advisor.  <b>Collaborative and engaged sponsorship [Case A]</b>  <b>System Innovation</b>

Source: Developed by author

Overall, an innovative mix was discovered, but each case varied in terms of innovative impetus: Case A has established a systematic platform to support sectoral change in terms of thinking and behaviour, relating to “system innovation”; Case B is more interested in stimulating service and product innovation directly benefiting its service users, therefore, “service innovation”; Case C promotes change through catalytic grant investment to build up readiness for loan finance, focusing on the “business model innovation” of grant-holders; Case D delivers loan finance to the sector, taking the risk of not holding security or a deposit in most of the cases (thus “financing innovation”). The four case relationships are illustrated in Table 8.6 below.

Risk-taking is shown in all four cases, showing at a high-medium level including in the case of Case B. The priorities are being highly embedded in change aspects and demanding

accountability effectiveness and independence in all the cases, apart from Case B which is not interested in recipients' income but in which priorities are given to the needs of service users.

New governance is found in the four cases, given the mixed-sector professional input. This move has pushed the adoption and adaptation of business techniques and competences. Respectively, Case A exhibits "ambassador" style governance, focusing on championing strategic changes and resources for changes. Case B shifts to a "stewardship" style with a more developmental role. Case C establishes a "cooperative" governance style enabling institutional collaboration in a consortium. Case D defines its system as a "mentoring" governance style, given the nature of the Chairpersonship and the agreement between Chairman and CEO.

Learning is seen to be actively pursued in all four cases, although different learning styles are adopted by the different cases. Case A presents a systematic learning loop. It links both tacit and explicit knowledge. Case B shows interactive learning by linking its internal and external connections, enhancing a grant-management system by the use of information technology. Case C has started learning from institutional partners and individual experts. Case D has expanded its socialisation by its outreach activities, along with the newly developed central management system for ongoing learning.

Isomorphic change has also been discovered in the four funders. In fact, the convergence has indicated that working in the same direction has more or less driven the four cases. What factors have pushed or pulled the isomorphic changes are discussed in Chapter Nine. In addition, evidence shows that not only do Case C and Case D work closely as institutional partners, Case A and Case D have also both supported the same grant-holders. These levels of overlapping activity and collaboration have provided a base for a sectoral-level convergence, which might see the four cases integrated into a regional model in Scotland, contributing to regional development.

Divergence might present a perspective for compromise and complementing each other's services. This is clearly presented from the cases studied, also voiced by the informants in the operating environment, with an effort to collaborate with more funders. The arguments for consequent advantages and enhancement are seen in the following:

a) for resource effectiveness, a centrally-based assessment hub could save administrative effort and time in the submission of funding applications;



- b) for resource empowerment, a centrally-coordinated collaboration could empower the applicants, with a change in a dynamic relationship to demand-led rather than supply-led;
- c) for resource synergism, a central planning mechanism might counteract the scarcity of resources and make a more valuable contribution to the sector, as well as linking to development in the domain of public policy.

# Chapter Nine: Discussion - Thematic Understanding of the Four Cases

## 9.1 Introduction

This research primarily compares four funding approaches to solving social problems in Scotland. The cases are analysed as examples of funding distribution processes in allocation of resources, in terms of “why fund”, “what to fund” and “how to fund”. Following the thematic analysis of the four cases in Chapter Eight, this chapter relates the key research findings to the literature. First, it develops an initial typology of funders, setting out the key features of the four cases. Second, it interprets and explains how the findings address the research questions. Third, it identifies the congruent or surprising features of the findings compared to the literature and uncovers forces and actors for change in the funding distribution process.

## 9.2 Thematic understanding – key findings

This chapter, thus, presents an overview of the key findings from the four case studies, focusing on the key components of the funders’ engagement process. The structure of the chapter is based on the themes identified in the literature review chapter.

### 9.2.1 Motivation and value orientation

Motivation refers to the reasons for specific decisions or behaviour. The motivation of philanthropic funders generally implies delivering “benevolence” to society, driven by altruism. As identified in the literature (Damon and Verducci 2006), in the context of voluntary freedom, sympathetic motives may lead to impulsive giving. Harrow (2010) further argues that a funder as an organisation may better coordinate impulsive philanthropic behaviour. Scharf (2014:50) asserts that “warm-glow” motivations may lead to “inefficient” funding distribution.

Driven by an increased desire for outcome measures, motivational changes are clearly shown in patterns in the four cases. First, the reasons for particular giving behaviour in socially-responsible investment have increased, blending together emotional and rationalised motives. This has changed the traditional transactional relationship to a relational one. Secondly, convergent shifts of activities have taken place amongst the private, public and third sectors. This has shown in blending multiple interests. Thirdly, motivated by shared goals on delivery, an increased accountability and growing interdependence are found between the funders and the grant-recipients. Significantly, being driven by outcome measuring has shifted the giving to be conditional. Fourthly, divergent resources are channelled from single to plural efforts,

motivational complexities are seen from the multiple actors and multiple sectors involved in the process, which have entered into the same area in order to share problem solving. The complexity has made the value orientation blended and contradictory between the market (capitalism based consumption values), state (austerity, social welfare delivery) and community (equality, quality life and be collaborative).

Findings from the four funders echo the discussion in Chapter 2.6.1 with the following motivational features:

- a) VP shifts its motivations from emotional, to rational and conditional.
- b) evidently applying business (market)-principles and outcome driven.
- c) increased accountability and desire to grow independence of funding recipients.
- d) motivations are mixed and identified in line with four ideologies, (which are discussed and demonstrated in Table 2.5 in Chapter 2).

Motivations are a mix of “altruism”, “private and public interest”, “responsible giving”, and “social responsible investment”. Findings indicate funders’ shift from altruism charitable activity to investment, expecting returns from conditional giving. This has shown as a significant change among funders regarding their rationale of the funding, resource directionality, and high expectations of strategic models on social change. However, constant changes discovered in the research suggest that the desired motivational model is easier said than done; constantly adjusting it to fit for the mutual purpose.

### 9.2.2 Governance and decision-making

Governance refers to setting up a method of “controlling, directing, and regulating” (Oxford English Dictionary 2005; Hyndman and McDonnell 2009: 5) the funder’s “direction and rules” in operation. However, the understanding of a funder’s governance goes far beyond the setting of rules. Governance is regarded as “accountability” according to the UK Charity Commission (OSCR in Scotland), and is therefore, highly regarded in its conditional requirements. However, there is no universal standard for what constitutes good governance. It is not the purpose of this research to define effective governance but to understand the characteristics of governance in the four cases studied.

To fulfil their social missions, funders are bound to engage with multiple stakeholders (regulator, funding-recipients, community organisations and donors). The involvement of

multiple actors might make the process complex and chaotic. However, as demonstrated in the four cases, efforts are made to deal with the high levels of complexities; for example, multiple actors are attempting to coordinate their expert knowledge and skillsets in accordance with their missions. Multiple types of knowledge and actors from different domains shape the multiple relationships, which may also shape the different priorities, accordingly, influencing the decision-making and governance style. Thus, studying the Boards of Trustees is vital to understanding the complexity of governance in decision-making, as, with the different influences and interpretations of the actors involved, governance indeed appears differently in different cases.

Changes are made in the governance of the four cases in response to external and internal pressures, for example, addressing the needs of recipients, and internal resource re-allocation with staff changes. However, areas of change are presented differently. At the micro-level, Case A has started testing a sub-funding model under the principle of VP, with a view to changing mind-sets in the community, and to establishing trust-based change and capturing grass-roots knowledge. This has indicated an increased risk-taking attitude and behaviour before the grant is paid to the community upfront with a demonstration of a changing method. Also, this has demonstrated its ongoing desire for seeking change models.

The arrival of a new Chairperson has marked the beginning of Case B's significant change (strategic change twice). Subsequently, Case B has redefined and become more focused on its service users. This strategic change has made it seek a scientific approach to governance of its organisation.

Case C, as a change model in its own right, presents a new governance model in the appointment of its Trustees: instead of individual "self-interest-centric" volunteers, Trustees are nominated representatives of partner organisations, assimilating a 'cooperative style of model'. Intrinsically, this model has purposefully facilitate collaborations between organisations.

Leadership change (the appointment of a new CEO and Chairperson in 2013–2014) has resulted in Case D recruiting new Trustees according to its changed strategy: rather than the previous system of randomly received notes of interest, it has more purposeful and targeted recruitment with specific remits and skillsets. The new strategy has redefined its positioning in the third sector and its new focus on growth.

The arrival of new actors from different sectors on Boards of Trustees has resulted in the following patterns:

1. An increased desire and increased efforts to adopt and adapt business principles with a view to developing an effective strategic change in management. The change of committee structure and TB role-assignment in particular are exhibited in Cases B and D, while the governance structure was designed and created at the outset for Cases A and C.
2. Increased commitment to developing transparency for the public in all four cases: for example, the online publication and submission of annual accounts, both in line with regulatory requirements, answering common questions, and providing online links for easier public access.
3. All four cases have demonstrated Board activities by Trustees, to review and revise governance policies on a regular basis. They intend to make the ongoing review process aligned to the Government's priorities, evolving understanding of the social needs and continuous reflection based on daily learning. This has resulted in strategic changes in all four cases.
4. The TBs of the four cases are constantly controlling, directing and regulating funding. Specifically, in dealing with value clashes they are keen not to tread on the social values, dealing with uncertainty, and risk assessment.

Change may be influenced by three factors across the four cases:

- First, the TB's desire to fulfil its roles and responsibilities effectively. Reviewing strategy is identified as a means to understand the change in social needs and its associated funding implications.
- Secondly, the Deed of Trust dictates Trustees' length of service. The regulatory requirement determines rotating Trustees. Inevitably, a change of Trustee members takes place on a regular basis. This is identified as an opportunity for funders to make changes in order to achieve their mission.
- Thirdly, there is increased input from funders, exhibited in expanded expertise, knowledge and skillsets from different sectors. In addition, more inputs are employed with a view to develop innovative solutions and seek effective funding distribution. Mixed inputs blend the knowledge, ideas, motivations, and methods.

- Fourthly, changes may have been triggered by the gaps between the ideal model and reality, for example, challenges to articulate outcome measures, define innovation, evaluate innovativeness, and what constitutes an effective funding model.

Significantly, change is evident across the four cases. This might be facilitated by contradicted value orientation from social and private domains. Negotiation, conflicts, and show and tell are exhibited in this blended governance process. Learning and reflection (self-evaluation) is used as a mechanism to gain new insights, new perspectives about the events, activities, social networks and actions adopted. Debates and self-questioning are becoming governance practice for the four cases. The internal debate of the TB takes place by digesting external information, training and knowledge with regard to the suitability of the adaptation of business techniques. Externally, for example, there are road shows and public engagement events exploring applicants' needs.

Individual leaders portray unique features in leadership and governance, for example, the different relationships between the Chairperson and the CEO. Case A is classified as “entrepreneurial and ambassadorial” in style for focusing on promoting and profiling for more resources, and in recognition of its funding approach. Case B is exhibited as “proactive stewardship”, self-defined as preserving money for Scottish service users with an increased close engagement with funding-recipients. Case B is at a transitional stage, moving from a conventional approach to a more engaged in business principles model. It has embarked on the change process proactively. However, stewardship remains evident in the old part of Case B's ethos, which preserves the characteristic of emotional grant giving, showing its reluctance to shift completely to a loan model. This is not to say that “old” is not good or not adequate; simply that it reflects differences here.

Case C is established with cooperative-type representatives (institutional partners) with a shared responsibility towards its funds. However, the actual funding decision is delegated to a panel with mixed professional backgrounds. This is to ensure that decisions are made objectively. Case D is in a consolidation stage after more than ten years of field development, including learning from failure. A mentoring agreement has been formed between the Chairperson and the CEO. This has featured governance of a unique style, the Chairperson believing that space that allows leadership growth should be carefully created. This has resulted in a new strategy, new structure and new set of priorities, along with the new Trustees. The

new strategy highlights the elements in growth and links to the needs of communities' financial capacities.

The research process evidence of different roles being played by the four cases, determining their employment of differing governance approaches. A professional and personality mix is also evident in the four cases, resulting in governance leadership developing differently. It is worth noting here that a determining role in change is played by individual (hero-) entrepreneurs, shaping the nature and style of the governance. It would be interesting to see follow-up research in this area.

Cross-sectorial collaboration is also seen in the process of seeking solutions. New organisational partnerships are shaped as a mechanism for exchanges of knowledge, skills and contacts in relation to governance; this exhibits itself as resource leverage for strategy realisation. Ongoing clarification on goals and services appears to be another aspect of governance dealing with the dilemma created from multiple actors, multiple resources and multiple activities. All the cases have taken an evolutionary path where they have to reconfigure their power relationships, shaping the new relationship with recipients and identifying aligned strategic partners, along with new language and new tools.

Case A deliberately sets out to blend human resources, financial resources and ideas to shape the change process, in which different actors offer different resources in any given situation. For example, there is a significant amount of in-kind pro-bono support injected into Case A, with more than 260 private-sector professionals involved in pro-bono support to help its grant-holders.

Case B has expressed its interest in collaborating with peer funders. Although there are claims in the literature that actors from different fields may have the tendency to make the vision drift (Grossman 1999), the empirical evidence suggests the opposite, with thoughtful consideration. This echoes the call by Jung and Harrow (2015) highlighting that a networked governance bringing cross-sectoral players requires careful consideration. The TB demonstrated in all four cases, that funding model design is based on evidence and scientific understanding of social needs. Control is employed to pursue the dual purposes of the mission to promote balance and avoid mission drift. TBs play a vital role in facilitating knowledge and controlling exchanges, for example, developing monitoring systems to capture information, and third party involvement for controlling and mitigating risks.

Various actors (at both strategic and operational levels) in all four cases express frustration, however, avoiding mission-drift is necessary for funders. There is a recognition that changes take time; a strong voice from applicants calls for ‘patient’ resources for longer-term development. This indicates a deeper understanding of the social issues and justification of the use of business investment tools in this social context.

This, thus, regards to VP’s evolutionary path, different from the claims in the literature, which considers VP too radical and polarised an approach on the business spectrum. The use of business-models has been adopted with careful consideration as to social context. A learning and growth mind-set is demonstrated in the four cases. Meanwhile, events, debates, conferences, forums and networking have emerged, shaping a new platform for new learning and understanding. Driven by problem solving, new actors embark on this new area for interaction, dialogue, resourcing and considering investment approaches. VP recognises its lack of knowledge about social sectors; therefore, professional management is highly regarded in governance. In addition, the different characteristics exhibited in each case seem to be driven by the Chairperson and his/her relationship with the CEO in particular, seen in the attitude and mind-set with regard to change and alignment of resources for change. As these are ongoing challenges, governance priorities, thus, seem to be contributing to the funding distribution process, in which governance activities are devoted to leading, directing and leveraging resources to avoid mission drift and position social value as the top priority.

### 9.2.3 Engagement process

Van Slyke and Newman (2006: 345) claim that the VP engagement process provides intensive involvement in order to deliver “visionary, strategic and operational leadership”. Increasing and increased involvement is evident in the four cases. Closer engagement has shaped a new relationship for a deeper understanding and exchanges of information. On the other hand, the engagement process becomes the mechanism for identification of support needs and resource leveraging. Change has resulted from the interaction of multiple actors and reflection.

Activity for change is seen in three aspects:

- First, funders engage with internal actors (both strategic and operational members) to debate and analyse the innovation model adapted. Ongoing adjustment and improvement are discovered in the four cases during the change process. Professional



advisory groups are called in for consultative engagement in the four cases to address the defined social issues, and balance related strategy and resources.

- Secondly, funders play a role in bringing together external and internal actors through social networks. Through social engagement, the likelihood of learning and development is increased.
- Thirdly, a central management system is established in the four cases, there in order to capture the knowledge and information for decision-making, but also to facilitate internalisation and externalisation of the knowledge, such as, for example, informants voicing their high level of learning throughout their experiential engagement. Funders also use such a system to monitor grant-holders' performance and progress and to identify early pitfalls.

Changes are evident in the activities relating to adjustment of the mission focus, staffing strategy, setting up procedures and professional standards. Data suggest that impetus for change has become an underpinning mechanism, with the four cases demonstrating that initial change was driven by an individual leader, which echoing the claims of Van Slyke and Newman (2006) regarding the "hero-entrepreneur". For example, the interview transcripts indicated the original founders' heavy influence; the areas being influenced in Case A are evident in its business model, operating style and ethos. Meanwhile it is interesting to note different sets of assessors and advisors have played different influential roles in shaping the direction for change, and the relationships with key actors, including grant-holders. This is evident from the close engagement with grant-holders. It is interesting to note such a characteristic that might provide us with new insights for further research in depicting the advisory body's role in the change process. Any changes are accomplished through either the funding advisor's consultative engagement, or through executing the 'changed' funding strategies and policies, in order to deliver a common mission for social change between the funder and its recipients.

In Case B, the Chairperson drives change. Meanwhile, a senior Board of Directors, specialised in social needs, was persuaded and agreed to support a new strategy for change. After convincing the organisation's lawyer, a new Trustee was recruited to support change strategy delivery, although it was not easy to convince "old school" Trustees (who held that a funder should not apply business principles). In Case D, meanwhile, change has resulted from two appointments of organisational leaders. The most recently appointed leader initiated the change

process by engaging with the new Chairperson. Overall, all the cases challenge the idea of a status quo of a “freebie” culture in philanthropy; instead, funding structure changes are seen as a significant change in all of them. Reflection is seen as an important process to manage the contradictory values, accordingly to either find a new solution or make adjustment for targeted objectives and being purposeful. Clearly, ongoing changes are evident in all four cases, as illustrated in Table 9.1.

**Table 9.1 A Comparison of Change Processes across the Four Cases**

	Case A	Case B	Case C	Case D
<b>Mission</b>	New (innovation)	Change (innovation)	New (Innovation)	Change (Innovation)
<b>Staff</b>	Strategic, operational and structural ( trustees)			
<b>Procedural Change</b>	Adding new elements	Shifted to online application and assessment procedural	Incremental change in the ongoing process	Incremental changes in outcome measures
<b>System Change</b>	Incremental change	New system	Incremental change	New system
<b>Funding Structure</b>	Incremental change	Radical change	Incremental change	New as radical approach but with incremental change
<b>Professional Standard Change</b>	With mixed professional input			
<b>Triggers for Strategic Change</b>	Frustration at witnessing the failure model of funders in the last two decades	Death of the original founder	Institutional gaps	An entrepreneurial politician foresees the austerity
<b>Enablers</b>	System innovation model	Strategic change in outcome-measures	Funding models	Loan finance
<b>Change Agent</b>	Founder (individual entrepreneur)	Chairperson (individual entrepreneur)	Funding proposer (institutional individual entrepreneur working for the organisation)	Previous Labour Party politician (individual entrepreneur)
<b>Barriers</b>	Current situation regarding “freebie” culture, funding structure, mind-set reliant on funding, articulation of the impact and changes			

Source: Developed by author

Rather than VP appearing to be “aggressive”, as claimed in the literature, humbleness is seen in all the Scottish funders. All of them demonstrate considerable humility, acknowledgment of limitations and commitment to learning. Deep reflection deriving from the practical activity echoes the claims by Nicholls (2010a) that, for example, funders as resource-rich actors have adopted action-based reflection for better development. This reflection is illustrated in the high regard for learning in the goals set by the multiple actors involved.

Although funding strategies differ, a similar trajectory is discerned in the processes in which the four funders are embracing a similar desire for innovative models and hands-on engagement and are driven by measuring outcomes. This echoes VP's characteristics in four areas: "high-engagement", "multi-year support", "non-financial support" and "organisational capacity building", as defined by the EVPA (2012).

This similar shift across sectoral engagement indicates a converging funnel of uniform direction and resourcing. This might be seen to be reflected strongly in the ethos of the founder of Case A: funders should be practising more focused leadership, and working harder and deeper in the specified social areas. Arguably, such concentrated efforts will allow changes to emerge. On the other hand, new actors have entered the field of philanthropy, leading the adaption of business principles through negotiation with the different actors, such as recipients, for joint problem-solving. Changing behaviours are detected in the funding distribution process as well, guided by the funding structure. As argued by Moody (2008:6), new funding structures likely play a role in a new "cultural repertoire" (Lamont and Thevenot 2000) influencing funders to construct a set of professional standard, for example, professional consultants being brought in and using new techniques in marketing and fundraising.

#### 9.2.4 Entrepreneurial investment approaches

As discussed in the literature review chapter, resources are a core attribute of funders. Funders play a nurturing role at the interface of three relationships in the supply and demand process: 1) obtaining resources from donors; 2) making decisions to redistribute resources through selection; and 3) managing and maintaining relationships with recipients in order to achieve shared goals.

The findings suggest the following three patterns in resource distribution. First, except for Case B, mixed capital resources are directed and contributed. The capital for Cases A and D is provided by the Scottish Government and private donors, while the majority of the money for Case C is endowed by the Trust or obtained from public lottery funding. However, the capital provided by the Scottish Government to Case A is a non-repayable grant, while that provided to Case D is a repayable loan with an interest rate. The influence of the Scottish Government is seen in the outcomes agreed with Cases A and D. Inevitably, the agreement will form part of the strategic objectives, in line with the Government's strategic direction. Although the Scottish Government officers highlight that they have no intention of interfering in the decision-making process or deciding on to whom and how to distribute the capital, as a matter

of a fact, as it is a major donor the outcomes agreed with and voices within the Scottish Government inevitably impact on the funding-structure.

Secondly, despite criticism of Cases A and D for being service substitutes for the Scottish Government, individual entrepreneurs initiated both cases. An ex-banker established Case A, while a former Labour Party politician proposed Case D. Even for Case B, attempts were made to engage with the Government, although these proved unfruitful. On the other hand, the Vice-Chair of Case B also has political involvement with the Scottish Government, for example, sitting in the cross-party group as part of his/her parliamentary activity. A keenness to engage with the Scottish Government is shown in all four cases. Given the size of Scotland, the chances for cross-sector engagement are not rare. The small geographical size might become a contributing factor in fostering cross-sector collaboration and exploring opportunities.

Jung and Harrow (2015:47) argues that “philanthropy in networked governance” requires serious consideration and care regarding roles and responsibilities. Philanthropy has a tendency for being used as a substitute for public service provisions, pushed by austerity and pulled by the demands of social needs; new and diverse forms of resource models for services are being shaped with the Scottish Government. Second, proactive development of ‘an enterprising and entrepreneurial ethos’ is being put in place in problem solving. Third, there is an increasing desire for, and action is taking place in seeking, collaboration with both peers and cross-sector partners, typified in Cases A and D. In addition to cross-sector collaboration, peer collaboration has also been emerging, as seen in Cases C and D. Case B is also exploring working with peer funders.

Collaborating with the Government is, so far, regarded as advantageous both financially and with regard to status in leveraging efforts and resources; in particular, this is seen strongly in Cases A and D. However, awareness is shown in the process of balancing political influences and autonomy in order to avoid being controlled. The findings indicate that starting with short-term seed money, both Cases A and D have leveraged resources for longer-term survival capital. The initial capital from the Government seems to add legitimacy in the process of raising financial support, no matter whether being forced or voluntarily injected. Although with Case D an institutional financial partner was at the outset sceptical about the new initiative’s chances of success, given the compelling impetus from the Government, that organisation has decided to join in.

Thirdly, human capital with financial capability is highly regarded in all four cases. Each has a different strategy for resource optimisation. For example, Case A has organised regular learning and sharing sessions for applicants in the same funding stream, mirroring resource-syndicating models in the context of private investment. Case B has invited external expertise to present emerging topics as part of its professional development efforts. Case C has engaged with Case D, using its expertise in the investment area in assessing the loan applications, in particular with regard to the analysis of risk. Case D has proactively engaged its staff in community development; for example, staff members act as Trustees on the boards of non-profit organisations, to gain insights and knowledge and to build understanding of potential issues. Moreover, to clarify funding criteria, in particular, shown in form filling for outcome measures, collaboration has emerged in Case B. The present research has discovered a number of funding-recipients who are funded by both Cases A and D. Arguably, funding records (i.e. “funded by who”) may play a role in legitimacy, potentially providing a reliable reputation. Due to the overlap, this has stimulated new thinking in the philanthropic field in Scotland. Certain entrepreneurs from the banking sector aspire to develop a joint-funding initiative, where funding-recipients only need to submit their application, business plan, financial accounts and related information once to multiple funders. However, issues such as coordination, governance and the operational model need to be defined.

Nevertheless, convergent patterns are presented. Significantly, an increased level of resource- and knowledge-sharing are seen at both the strategic and the operational levels. Mixed professional input has brought in mixed networking resources. Learning is taking place amongst the mixed professionals, linking business and management principles into philanthropy. The four cases have indicated a tendency to move into similar areas where they can share resources, knowledge, skills and learning. While pursuing methods of measuring outcome, funders and applicants work together on shaping the application in order to gain deeper understanding of the social issues and appropriate competence for deliverables. This has changed funders’ relationships with grant-holders to being more collaborative. In reality, funders carry the risk for the grant-holders, in the event of the grant-holders not being able to repay the loan. Thus, grant-holders are highly regarded as partners.

Another distinctive discovery is that the four funders intend to work with the Scottish Government. Sievers (2010: 383) argues that to avoid philanthropic failure, there is a need to build up “system” and “normative commitment” towards the public, therefore, philanthropy

may play a pluralistic but more explicit role, for example, supporting “pluralistic forces” by “championing alternative voices, supplementing the state and market” for service delivery. Sievers argues further that mass communication might help the funding process towards increased transparency. It is seen that all four cases have developed a public web presence. The present research echoes Sievers’ assertions, showing three developmental elements: 1) setting up a monitoring system; 2) more specified strategic focus; and 3) developing an open system to communicate with the public. However, the counter-argument may be that elite donors form a dominant power to control. Although efforts are seen towards balancing the power and control, there is a need to consider support for those who are not ready for a change of model. Equally, it is important to set up a system to accommodate the needs of community organisations and to address different levels’ capacities and missions. No matter to what extent business principles are adapted, at a macro-level there is a need for funders to consider to what extent the social mission is not lost or drifting, but placed at the centre.

Parmar (2015: 1) notes that the Big Three funders (Carnegie, Ford, Rockefeller) have operated as “extremely influential in America’s rise to global hegemony” since last century. The funders studied in the research, have demonstrated different behaviour on three accounts. First, the philanthropists (donors and funders) intend to stay in a distant relationship with the funding organisation, neither interfering in the processes nor filling any administrative roles, but embracing and supporting the overall mission and philanthropic giving ethos or new concepts. This is reflected on by the informants themselves as a typically Scottish “humble” approach, and differs from the Big Three: for example, Carnegie felt that he would need to get involved in the funding distribution process and deal with administrative tasks, while, in this research, entrepreneurs are aware of the elite dominance phenomenon. They intend to avoid it: for example, Case A’s fund exited from the organisation based on its own free will and promise.

Secondly, diverse sources of resources and effort merge into the problem-solving process, with priority given, for example, to representatives from the social areas. This is seen as the exercising of equal voices: decision-making is not hijacked by the high amount of capital injected. Control is based on knowledge, expertise and skillsets. In particular, this is evident in the balance of the mixed sectors’ professional input. As highlighted by Case B, for example, when conflicts occur, the needs of the children are always regarded as the top priority, irrespective of financial risk.

Thirdly, there is no sign of global dominance rather than a focusing on regional (country-wide) issues in Scotland. Hegemonic power could have been created amongst Scottish funders, too, by focusing on domestic issues rather than financing global non-profit organisations. Studying the pattern of recipients indicates that the majority of “new” resources are provided for already capacity-rich organisations, for example, large and well-known charities, rather than for start-ups or small-to-medium charities. The questions arising here might be how the funders could best support those being slightly excluded in their financing process, maybe to be more creative and consider alternative funding models.

However, the explicit relationship between the Government and the funders is not precisely known. It is beyond the scope of this research, but it would extend its value for future research to consider this nexus, and particularly to compare those who have no intention of engaging with the Government and to explore to what extent collaboration may enhance effective grant-giving.

Engaging with Government capital potentially shows a process that creates a hegemonic position. The dominant power has enabled funders to engage further with heteronomous sources of capital and support. For example, in Case D’s initial stage, bankers recognised the importance of working with the Government even when the financial investment risk was rated high. This finding suggests that funders, as resource-rich actors, may potentially play a role in creating a dominant power, either to create or to avoid a model of change for the community.

Increased institutional collaboration is seen in the four cases due to the central use and coordination of resources. The present research also demonstrates efforts to address the barriers facing non-profits, identified by Austin et al. (2006): limited access to professional staff or talent (mixed professional consultants), limited financial resources and instruments (mixed financing approaches), scarce unrestricted funding (concentrated resources with less restriction) and inherent strategic rigidity (focus on strategic change and accountability).

Effective employment of resources is an important strategy and practice but, as Delfin Jr. and Tang (2006) argue, resources themselves can be sparse and static; for example, knowledge, capital, material, and different forms of financial or intellectual resources. Recognising potential resources and deciding how to use them can be subjective and requires human effort. People act as the catalysts to bring together perception and interpretation, as well as to build up new relationships through a complex dynamic, which is evident in all four cases.

## 1) Project selection

Due diligence was used by all four cases. Changes are seen in the four cases in the selection criteria and process, as shown in the pattern below:

1. Requiring outcome-measures is seen as a funding criterion in all four cases. Case B has changed from a generic and normative commitment towards this new strategy, focusing on a niche service area. In practice, instead of project budgeting, the bank account, financial balance account and financial forecasting are assessed.
2. The shift is also seen in an understanding of the market and in technical knowledge in dealing with social change. Instead of focusing on project and service users' needs, the evidence-based approach asks for comprehensive knowledge about the market, social and technical factors and associated risks: for example, legal entity and the rationale behind the formation. The risk element will be discussed later in this section.
3. Assessment has seen a shift in both assessment form and mode. The requirement for the assessment form has changed from project evaluation (Case B) towards a more holistic approach using a business model (in Cases A, C, D extended to overall capacities and capabilities). The assessment mode, including Case A, has shifted from one-off static to an ongoing and more fluid type. The assessment is different from conventional approaches relying on funding officers; external expertise is called in to provide specialist knowledge.
4. Funding terms are increased in the four cases. The time change indicates funders' interests in recognising the need for a longer-term development as well as demonstrating an increased commitment to problem solving. Learning is shown as another effect through longer-term interaction.

The new discovery in this research is that, contrary to what is suggested in the literature, the four cases are moving towards the new VP zone as they become more similar in business principles and outcome measures. The change in selection criteria has shifted the relationship, while focusing on the process rather than the end point of the outcome alone. The nature of the funder–recipient relationship has also changed into a partnership rather than stewardship or single directional patronage. This change has pushed the Trustees to increase their commitment to field visits and deepening interaction with grant-holders; a better understanding can, therefore, be developed. It is interesting to note that the shift has become compulsory for Case



B, although the Board of Trustees is aware of the increased resources and time needed to follow this course of action.

The closer communication has provided a platform from which to understand and negotiate how to implement contradictory values (business versus social). Moreover, project selection for Case B is aided by the use of information technology as online applications become available for strategic change implementation.

This emergence of the use of information technology is shown in the use of multiple resources and expertise input in the selection process, influenced by business methods such as due diligence and outcome measures. This has driven the four cases to work in the same direction. In the process, hero-entrepreneurs (leaders) have established mechanisms for absorbing diverse knowledge and considering the appropriateness of the change. In fact, ongoing changes are discerned at a micro-level and will be discussed further in Section 9.4.

Despite the divergence on funding models, convergence can be seen in the four cases. Further to the literature arguing on the contradictory values orientation of blending social and financial outcomes, the present research discovers micro-processes of adapting business principles and tools and demonstrating change trajectories through learning and negotiation with different actors.

There seem to be problems in the articulation of “innovation” and quantifying the outcomes. “Due diligence” has played a role in forming a new relationship, rather than, as argued in the literature, being only viewed as “traditional grant review processes” (Frumkin 2003: 15), because the review processes have changed from single-direction by funding officers to be dialectical with more evidence-based and more knowledge references to the real world. However, the downside of this type of assessment is that it may disadvantage community organisations which remain small and lack a steady flow of financial income: for example, due to heavy volunteer involvement, small associations do not have a large bank account able to show two years’ cash-flow. Apart from Case B, the rest of the models take longer to complete funding agreements. This is due to the contractual relationship involving legal professionals and the due-diligence assessment. Reflected by the informants (recipients), this appears to have been burdensome because of the heavy administrative workload and legal requirement process.

Thus, in one way, the application is predisposed to large, more powerful organisations. However, it is interesting to see that Case B maintains its high interest in altruistic support,

with its priority focusing on the welfare for service-users not shifting to loan-finance. Case A is determined to continue its grant model as well. It is risky to push the sector to a market-oriented approach. Different social issues require different responses. On the other hand, assessment and interpretation may be subjective, given the assessors' education and professional backgrounds. There is recognition of a need to build up a system to translate subjective into objective views, which is facilitated by debates, weekly meetings and panel discussions.

## 2) Ways of operating

“Operation” refers to ways of executing organised, collaborative activities involving the relevant people, resources and efforts. Although the funding packages are different in the four cases at the outset, outcome measures have driven them to work towards a similar approach in their operations. All the cases demonstrate increased levels of hands-on engagement in addition to providing financial support.

Different operational models are to be seen according to the different resource types, funding modes (grant and loan), length of time (long and short) and relationships with the recipients. Therefore, the four types can be classified as an engaged partnership (Case A), a patronage relationship (Case B), a compassionate lender (Case C) and a concessional lender (Case D).

An engaged partnership (Case A) proactively seeks sectoral level partners for convergent resources and problem-solving. The closest relationship between funder and recipient is demonstrated in Case A. Operationally, it provides very intensive consultative engagement to ensure capacity-building. Moreover, a systematic approach and partnership agreement is signed by both parties (Case A and its supported applicants) to maximise success and provide early intervention on potential issues.

In a patronage relationship (Case B), the funder basically remains as a patron, a grant distributor with the lowest engagement with recipients. But its operation has shifted from an arm's-length relationship to hands-on, given the strategic changes.

With a compassionate lender (Case C), taking the strengths of long-term knowledge about the Scottish communities, the method is adapted to making a step change by providing a grant and loan package. With the package which comprises one-third grant and two-thirds loan, this specifically targets those who are at a start-up stage or who have the capacity to develop and

deliver the business models for changes. The relationship with its recipients is less engaged than in Case A, but higher than in Case B.

A concessional lender (Case D) works on a lending model, addressing the commercial banks' investment failure in the third sector. Instead of strict scrutiny according to commercial rules, Case D has offered concessional conditions aiming to upscale the SVs on the borrowing ladder. Its engagement level is lower than in Case A but higher than in Case C, given the nature of the loan.

The four models are presented in Diagram 9.1. The horizontal line of the box refers to a grant and loan, its strategic purpose, levels of relationship between funder and recipient, while the vertical line refers to levels of engagement. The area underneath the horizontal line of the box does not represent negative value. Integrating the four cases seems to demonstrate a country model to consider for three reasons. First, each demonstrates a gradual change model moving from different parts of the scale. Secondly, incremental change is shown from grant giving to loan finance. This might provide a perspective of the transitional process. Thirdly, arguably, the quadrants might provide a demonstration of how to mix and match various resource elements towards meeting social needs.

This typology is based on the notion of philanthropic giving (Ostrower 2006). Diagram 9.1 proposes the new typology based on the three aspects of the philanthropic-giving process: funding mode, strategic purpose and relationship with the recipients. Those aspects would depict the core elements of funders' resource channelling roles.

<b>Incentive Lender</b> Provides non-repayable funds and loans that support applicants to make a step change <b>Advisory Coordinator</b>	<b>Cash Mentor</b> Provides non-repayable funds providing financial (non-repayable) and non-financial support <b>Engaged Sponsor</b>
<b>Flexible Lender</b> Provides business loans that otherwise applicants would not be able to receive elsewhere <b>Engaged Banker</b>	<b>Gift-Giver</b> Provides non-repayable funds, focusing on service users <b>Relationship Patron</b>

**Diagram 9.1 Four types of funders**

Source: Developed by author

Relating to practice, recently the OECD netFWD (2014) has shown that, due to diversified investment from funders, funding size cannot determine influence. As demonstrated, the above typology may provide an initial step to understanding funders' influence, such as integrating motivation, funding instruments and strategic relationships. This multi-dimensional

demonstration should be helpful to practitioners, as well as to the Government policy-makers, in decision-making and shaping strategic policy. On the other hand, by continuously embracing the “autonomy” features of funders, the typology provides sufficient space for funders to be independent from the state and market place, but at the same time explore various possible innovative models.

### 3) Innovation and risk-taking

Applying business principles (tools) may be seen as the overall innovation in the four cases. However, different cases show different innovative models being adapted. For example, Case A is more in line with system innovation aimed at making sectoral changes. Case B is interested in service innovation focusing on the experience of service-users. Case C supports business model innovation proposals by recipients, and Case D focuses on an innovative financial model that is aimed at increasing the financial capacities of SVs.

Risk can be understood as relating to “giving to whom”, “giving of what”, and “why giving at all”. Increased funding terms are found in the four cases. Evaluating the amount of the capital and length of funding, on the surface it seems like all four cases have an increased appetite for risk-taking, even including Case B (which started as TP), which has extended its grants from one to two years, and potentially up to five years. Risk-mitigating mechanisms are found in the four cases, too. For example, “due diligence” has played a role in filtering out those organisations that do not have sufficient capacities, nor the ability to absorb large amounts of capital, and which are not ready for change. Mixed professional experts are employed to conduct risk-rating assessments, apart from in Case B. Rather than incremental changes, no radical change of approach relating to risk has been discovered. However, different innovative models have determined different definitions with regards to risk area and priority. For example, Case A focuses on sectoral innovation, therefore, its efforts in building infrastructure or programme design cater for sectoral change. Case A regards highly service innovation with regard to its service-users, so anything associated with its service to children is considered risk. Case C only funds business models in change. Case D provides alternative financial solutions for SVs. Case B focuses on process innovation by bringing key actors together for solving targeted social problems. In this process, Case B uses interaction, dialogues and consultative engagement to change people’s mind-set, with an expectation of behaviour change amongst the actors from different sectors. Across the board, all four are interested in building up systems to manage and reduce risk by joined-up efforts.

### 9.2.5 Exit strategy

Certainly Case B does exit, but its strategy is different from the other three cases. This means that by the time a project finishes, the recipient organisations should be financially independent and have the capacity to grow without relying on funders' capital. The Trustees of Case B hold different expectations, as they regard the service to children more highly than sustainability of the project itself at the exit point. This means that a project supported by Case B might provide emergency services for children, even if the project is set up temporarily with a short life-span.

The exit strategy does echo the claim from VP notion which is attempting to mirror the VC process to depart from the funding recipients at a given point (Anheier and Leat 2006: 21). The terminology is borrowed into the field and is used in daily practice in Scotland. It is too early to investigate this aspect in the present research. The data set is not intended to evaluate social and financial returns at the exit point. However, it is fair to say that, driven by the strategic focus and changes, funders are pushed to be more engaged with the recipients, something which is found to be similar among Cases A, C and D. The convergent feature has also manifested pluralistic efforts rather than unitary, not simply giving grants but building up new relationships.

VP is often criticised as an aggressive attitude (Moody 2008) in the philanthropic world, where it is accused of having a lack of knowledge and corrupting the philanthropic circle (Grossman 1999). On the contrary, however, reflection and ongoing learning are demonstrated highly in the four cases as a common part of the exit strategy. At the exit point, feedback and practical evaluation are highly regarded in all four cases.

## 9.3 Summary of the four funding models

Both convergence and divergence are seen in the research, so addressing the research question "To what extent are VP funders different from or similar to each other on why to give, how to give and what to give?" Significantly, the four cases have adapted four different funding models. Although the four cases have applied different business techniques and tools, driven by different motivations, convergence has been discovered. It is shown in particular in isomorphic change, which has emerged and has been shaped by the process of searching for social problem-solving and by interaction with actors, including peer funders and funding recipients. Divergence is shown at a micro-level in features such as governance, innovation models and an appetite for risk and the risk-level adopted in funding distribution. Based on the

analytical framework proposed in the literature review chapter, a summary of the similarities and differences is provided here.

Different motivations seem to determine that the focal point for changes are different in the four cases. While refining service constituencies and identifying service gaps, each has its own *raison d'être* and motivational drivers. With regard to the different models, by no means is one superior to the others: the situation simply reflects different roles being played by different funders. For example, three cases (A, C, D) aim for sectoral change at the macro-level, while Case B focuses on the quality of service users' experience at a micro-level. The difference between these three is that Case A assimilates a business syndicate approach focusing on behaviour change by socialisation, for example, knowledge sharing for creating new ideas, skills and competence through learning and collaboration of three sectors; Case C focuses on closing the institutional gaps in loan financing to the third sector; Case D also prioritises closing the financial lending gaps with commercial institutions.

Different motivations might give rise to different types of governance. Apart from Case B, mixed resources and professional inputs are found in common. Hands-on engagement is seen in all four cases, including Case B, which has resulted in collaboration with grant-holders. Changes are identified, primarily driven by individual entrepreneurs in the four cases.

### 9.3.1 Case A: A new model of an integrated system for change

Case A features an integrated system which is designed for both changed resource alignment and development of the infrastructure. The system is designed for formal and informal learning, which is used to enable decision-making and pursuit of changed goals, for example, to achieve the desired outcomes. The strategic mission is specified, targeted and defined in the thematic areas in light of priorities set by the Scottish Government. The founder believes that working harder, deeper and longer in one issue area will allow visible change to emerge. This belief is embedded into its programme design in terms of resource allocation by seeking aggregated efforts: for example, relatively large amounts of capital, longer investment terms and close engagement with recipients. Given these factors, risk is viewed as high.

Ability and intention to broker knowledge and relationships from the private, public and third sector appears to be another typical feature, shown in a "portfolio investment approach". It has provided a mechanism for creating shared value by bring actors together from the three sectors into focused efforts and resources for problem-solving. Meanwhile, funding recipients are not

kept secret from one another but are encouraged to attend sharing and learning social events, namely “portfolio syndicate days”.

The motivational base is shown as multi-dimensional, featuring four elements: altruism (grants, not loans), rationalised design (sectorial change model, requiring scientific analysis and understanding of the social problems), responsible giving (increased accountability and engagement mechanisms) and mixed resources from the state, the market and communities. This echoes the assertion by Damon and Verducci (2006) that funders should consider “rationalised thinking” and “systematic design” based on “sufficient knowledge”. Beyond Damon and Verducci (2006), “resource brokering” is shown as a key feature to add into the system by Case A.

### 9.3.2 Case B: A model of transitional change

In the case of Case B as a grant-making organisation, the grant-targeting areas have been shifted from addressing any social problems to more niche areas for organisations addressing family related issues. This has resulted from ongoing learning and two strategic changes between 2007 and 2013. The strategic mission is now more focused and theme-based (as with Case A). The entrepreneur (Chairperson) has initiated the change process since the death of the original donor. The strategic change has allowed the removal of generic global remits; instead, it has specified its objectives, defined its targeted service areas with a narrowed-down geographical service area. This strategic change, with the adaptation of business principles, has moved Case B to working closely with recipients. Initially, Case B would have liked to save on administrative costs, remaining in an arm’s-length relationship with recipients. However, change was triggered by appointment of the new Chairperson. Subsequently, leadership change has led to strategic change, which has shifted towards hands-on engagement and required better understanding about the service users. Evidence demonstrates that the funder and the funding applicant produce the proposal together. Another change is moving to multiple-year funding, which involves an increased level of risk. It appears that outcome measures are problematic because it is hard to define how and what to measure. Evidently, Case B goes beyond “cheque-writing” but is in a transitional change, moving towards the VP zone with a higher appetite for risk and outcome measurements.

### 9.3.3 Case C: A model of step change

Case C (mixed grant and loan) has identified an institutional gap in preparing third-sector organisations, including social enterprises, to apply for loan financing. The services are designated for regeneration areas in Scotland. The learning approach exists at an organisational level. From the outset of the model design, both strategy and practice indicate that Case C has collaborated with various organisational partners to increase knowledge, competence and skillsets. Peer-collaboration between Case C and Case D was seen in the decision-making process. Case D's lending experience and expertise resulted in Case D being invited to act as an initial assessor for the funding applications, i.e. to make funding recommendations. This is an interesting example of collaboration between peer funders for making a step change in philanthropy by leveraging resources for the third sector.

### 9.3.4 Case D: A mentoring leadership model

Case D (loan finance) has demonstrated that most of its changes have come about through its growth strategy and leadership change. Unlike Case A, which started out with a well-thought-out model with sufficient knowledge of the third sector, Case D has gone through a development process, where learning and experience have built up from daily operations. Enriched by private banking sector expertise, Case D has expanded its knowledge and capacities specifically in lending to the third sector. Deep learning is shown not only in the past ten years' operations but also through the strategic change, focuses on financial capacity in lending and consolidating the previous ten years' development. Acknowledging its strength in the finance sector, Case D has repositioned itself as a bridge-builder between "finance" and "community" in Scotland. This approach has added uniqueness, which articulates its new value propositions within the market-place because added value in problem-solving is highly regarded by entrepreneurs.

Case D has also increased its investment in infrastructure building, such as geographical expansion with a new office opening in a different part of Scotland, and the appointment of two new funding leaders focusing on regional development. A central lending management system has also been established in order to capture information for decision-making and development. Emerging patterns are demonstrated across the four cases:



1. **Motivational shifts.** All four funders have moved from pure altruism towards being responsible investors. The multi-dimensional elements are also shown in their interest in establishing relationships with actors from different sectors.
2. **Mixed professional and resource input.** An example of this is rich input from business consultative professionals to pro-bono support services. Increasingly, professional members from different sectors are choosing to join third-sector services. This has been evident in the four cases: Boards of Trustees have mixed backgrounds from the three sectors, which provides mixed input in shaping governance, strategy and practice. In particular, driven by “self-interest”, this has provided a feature of strong entrepreneurship. Meanwhile, performance standards are raised by mixed professional inputs.
3. **New language is introduced into Scottish practice.** There is also evidence indicating the use of new language imported from the business world, both reflecting the linguistic discourse and a vehicle for changes. The funders shaping the new culture and practice deliberately use this linguistic discourse. A list of the new vocabulary is presented in Table 9.2(a,b). This is slightly different from what the literature suggests, i.e. that the new language is “rhetoric” (Frumkin 2003; Dees and Anderson 2006; Dacin et al. 2011; Mitchell and Sparke 2016). The new language is in fact used as a mechanism for leveraging and framing new thinking in the change process.
4. **Longer-term funding and closer engagement.** This appears to be a common thread in all four cases. Although Case B was originally designed for short-term grants, the giving term has changed twice, expanding to the current five-year term. The Vice-Chair indicates that this might be reviewed again in the near future. This time extension suggests Case B’s willingness to take higher risks, as in Cases A, C and D.
5. **Adaptation of business principles, including outcome measures.** This has pushed the funders to understand the applicant organisations, social needs and ability to consider long-term views in an analytical way before a full assessment is provided, rather than merely engage in conventional project management. Knowledge management seems to be regarded very highly by them all. In funders’ assessment of the rigour of the business model, funding-recipients are required to demonstrate a feasible business model instead of a short-term project. This change has also pushed them to develop knowledge and understanding from a holistic and strategic perspective, such as, for example, understanding

of the market place (product position, the uniqueness of the product and services, market evidence about the service model, understanding of the competitors), financing and resource capacities and strategies (strategic alliances, income sources, past financial performance) and governance (reputation, risk-taking, professional standards). That is to say, since they must be able to demonstrate market knowledge in a systematic manner, funding-recipients are also driven to develop and apply new skills, new learning and new ways of thinking.

**Table 9.2a New Language Emerging in the Four Cases**

<b>Vocabulary</b>	<b>Meaning in Scottish practice</b> (Interpretation by the researcher according to the data-set, immersive empirical experience with informants, events and activities throughout the field work)
Venture(s)	New project(s) with a view to delivery changes and integrated business methodologies
Portfolio	Multiple projects under different themes, involving different players and serving strategic priorities
Impact investment	Differentiated from pure commercial investment, prioritising impacts on social, environmental and emotional output rather than pure financial gains
Impact investors	Investors driven by social gains, but with mixed expectations on social and financial returns
Impact	Legacy for and differences made to the communities; often there are patterns of practitioners considering how to measure impact, although it has been challenging
Risk-taking	Willingness to take risk, attitude about taking risks and understanding and rating on the levels of risks and how to mitigate the risks
Business model	Mixed use of this phrase between operational models and financing models in terms of how to make money to sustain the operations and services for the community. Also widely used by the funders and applicants, the thinking and practice often guided by the use of “Business Model Canvas” (Osterwalder and Pigneur 2010)
Sustainable business	Ability and capacities to maintain services from multiple dimensions including social, environmental, emotional (well-being) and financial maintenance
Due diligence	A process to gain comprehensive appraisals from multiple stakeholders as well as to understand strengths, weaknesses, opportunities and threats; credibility versus liabilities
Market value	Evaluation of product or service that can be sold or exchanged in the market place
Revenue	Refers to the multiple incomes to sustain the services and the organisation

**Table 9.2b New Language Emerging in the Four Cases (Cont.)**

<b>Vocabulary</b>	<b>Meaning in Scottish practice</b> (Interpretation by the researcher according to the data-set, immersive empirical experience with informants, events and activities throughout the field work)
Market-driven	Denoting service and product design guided and influenced by understanding of market trends, customer's needs (priorities), and service user's needs (for example, customers might be local authorities, service users might be disadvantaged community groups)
Market research and market intelligent	Actions and activities undertaken to understand the supply and demand at the macro-level; also in micro-level understanding, the customer's needs, preferences and root causes for social problems; searching for scientific evidence to understand the trends and patterns
Customers versus service-users	In the process of using "Business Model Canvas", the distinction was drawn between customers and service-users. For example, customers might be funders, while service-users are people who are in need of help and do not have buying power
Marketing and communication strategy	More business awareness and methodologies such as branding and promotional approaches are interwoven into service design and service delivery processes to enhance customer experience
Change model	Mechanism and analytical understanding on how to track changes (how), linking to an organisation's vision (why) and a defined timeline for monitoring and creating objective changes (what)
Eco-system	A wider community that links to each other physically, socially and environmentally
Patient capital	Investors are willing to take a longer time for returns (financial and social)
Social capital	Networks fostering relationships, knowledge, ideas and enabling multiple players to function properly in the society
Community regeneration	Community-led practice in change and empowerment activity, including investment (economics), training, environmental development and others
Asset lock/community assets	Legal phrases to differentiate between a community-interest company and a purely commercial company, protecting and re-directing community assets back to the community rather than private gain
Asset lock/community assets	Legal phrases to differentiate between a community-interest company and a purely commercial company, protecting and re-directing community assets back to the community rather than private gain
Measurement	Actions and metrics to measure the effects and impact of social intervention
Growth investment	Investment being directed towards growing organisational capacity with a view to delivery either for geographical or service expansion benefiting more service-users

Source: Developed by author

- 6. Shift from static one-off to dynamic and ongoing assessment.** Assessment mechanisms have shifted from applications involving static criteria for application assessment to an organic, fluid assessment. The dynamic assessment requires a change to the business model, previous bank account details and financial cash-flow bank balances for the previous few years, rather than project budgeting. This has pushed recipients to adopt and adapt new systems and new ways of reacting to the funding policy. Specifically, it is vital to gear up with marketing, research and strategic planning skills, unique problem-solving approaches and feasibility studies. One might argue that the policy has somehow pushed the recipients out of their comfort zones, but pushed them into approaching new professionals to acquire new knowledge and skills.
- 7. Organisational collaboration among peer funders.** This is seen in Cases A, C and D but has not yet been implemented by Case B, where it is considered an imminent goal. Case B presents two reasons for engagement with peer funders in the near future: 1) it hopes for increased efficiency, and 2) it hopes to sell its online application-management (central management) system both for effective grant-management and for income gains. Case B is also keen to engage with the Scottish Government, although past attempts have not been fruitful.

### 9.3.5 Developing a new thematic framework

A new conceptual framework is proposed based on a summation of the preceding discussion. Diagram 9.2 indicates the final proposed conceptual model for funders' convergent approaches and rapid institutionalisation of new knowledge, new skills, new resources and new alignment relationships with key actors in the philanthropic field, in order to achieve shared objectives. The conceptual model developed in the literature review chapter involves synthesising concepts from philanthropy and the entrepreneurship process (resource distribution and acquisition). The revised model integrates the emergent themes of the funding distribution engagement process.

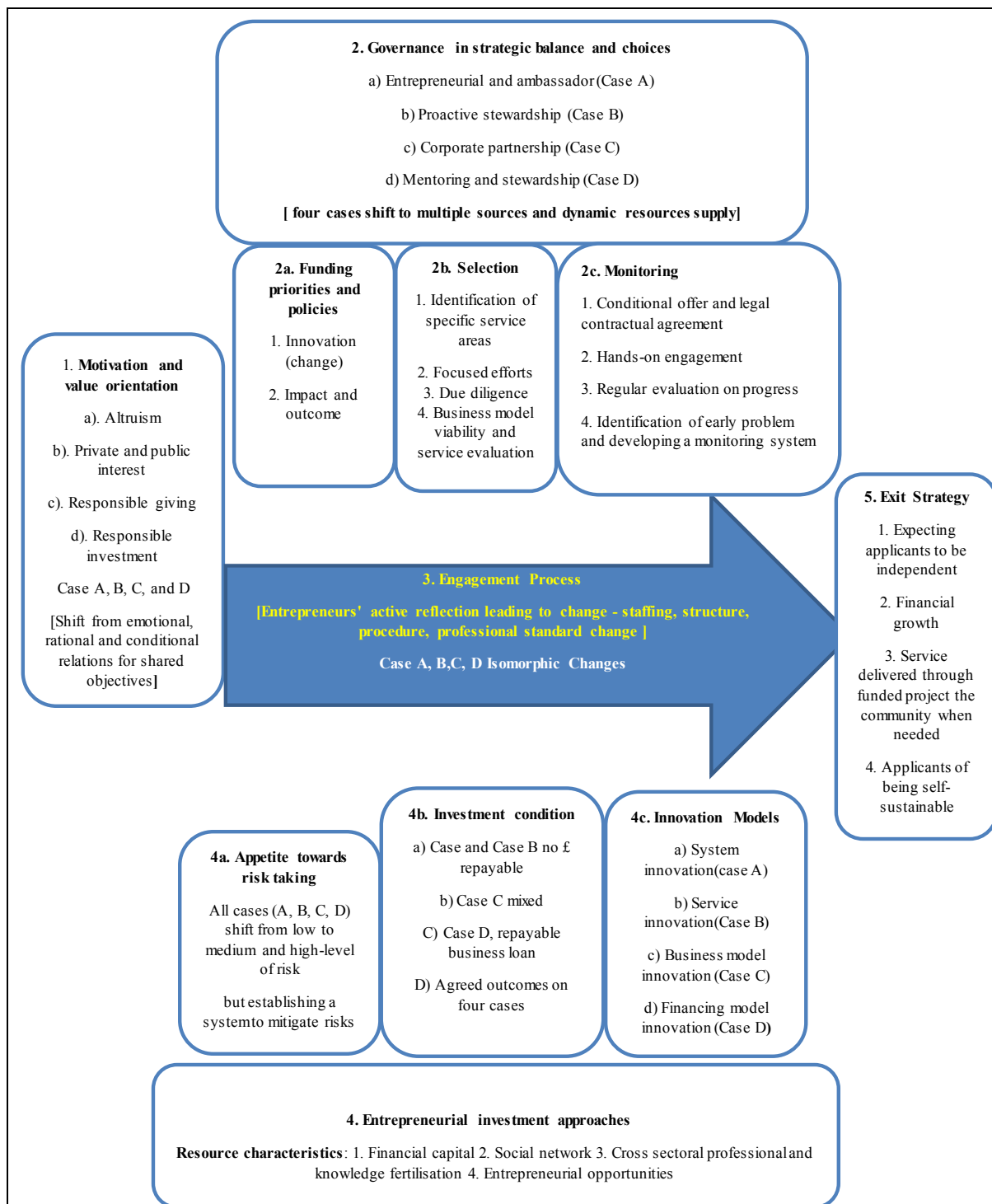
As illustrated in Diagram 9.2, with a view to answering “why to give”, “what to give” and “how to give” by the four funders, the model is divided into four key categories: motivation and value orientation; resource distribution as input; processes; outcomes. The underlying development is supported by active entrepreneur-agents and collaboration with key actors, including actors involved in multiple levels and at multiple stages, for example, an entrepreneur-turned-philanthropist, Founder or CEO, Chairperson or Trustees, investors, the

Government policy-makers, think-tanks and entrepreneurial operational members. Although strategic change in funding structure has played a vital role, the key actors are the primary driving forces in engagement with the change process. In this process, entrepreneurs (leaders) initiate the change agenda, mobilise resources for change and establish a support system for change in practice.

The “resources” are classified as capital and non-capital, which explains how the four funders utilise them to fulfil shared values and achieve a blend of both social and financial objectives. In terms of service delivery, innovation is required to realise such blended values, which may involve service innovation, system innovation and technical or managerial innovation. Although the decision is made within the policy framework, resource acquisition and distribution are used in specific ways. The resources can be classified as capital, human and social networks. Furthermore, the diverse nature and origin of resources contributes to the development of new skills, new knowledge and new capabilities to enable organisations to interweave them. Moreover, the identified key actors interact amongst themselves in order to ensure the adaptation fits into the contextual operating environment, including aspects such as governance, risk-taking and innovativeness. Thus, resource distribution is a process requiring constant engagement in active learning.

The “process” cycle is mainly classified by financial or non-financial support. Moreover, both entrepreneurial and managerial processes may explain the way in which funders behave. The process begins with the identification of a business model and project, which constitutes the operational activities under a system of monitoring, followed by a scrutinised evaluation (due-diligence assessment), further engagement with hands-on support and development of new capabilities, then identifying ongoing issues with further resource supply. Motivation and values are also embedded into process through resource mobilisation.

Identifying variables such as motivation, grant-model, structure and collaboration have also had an influence on bringing mixed professional inputs to the emerging philanthropic field. In terms of the process of change, these variables play different roles at different levels within the various contextual environments of the operating organisations. Evidently, these variables are more or less interlinked and only make sense contextually. Therefore, the following section discusses each individual case and the core themes in more detail by placing them back into its operating contexts.



**Diagram 9.2 A Proposed Model of Adaptation of Business Principles in Funders**

Source: Developed by author

This section aims to integrate all the factors shown in Diagram 9.2. The initial model offers an innovative funding model mix, the variables of which may be worth consideration for philanthropic funders, in particular to enhance chances of success for business-model adaptation in the social context. Funders are contextualised in an open system, dependent upon the environmental factors crossing the three overlapping areas of society, market and state.

Although the interaction with the environment is in part determined by the funding-structure, hero-entrepreneurs act as change agents, playing a crystallising role to reflect and modify the new funding model in the implementation process.

Reflective isomorphic change (Nicholls 2010a) is regarded as essential, as seen in this model. This is not to deny the role of innovative funding models; rather, the essential components of the change model should include an in-built system or mechanism that allows interaction between information and knowledge through deep organisational reflection. However, information and knowledge are fluid, while activation is deemed to be driven by human actors through reflective daily practice. Compatibility and fitness can be adjusted accordingly. It is this reflective process that provides realisation of the adaptation, the potentials of other components of the model interacting and being modified in a locality.

The development of this model is important to an understanding of the capacity for change of the philanthropic funders' funding model and its proposed resolution of social problems. Limitations are considered at four levels. First, the model needs to acknowledge that further tests should be conducted to understand its potential limits. The limits may be seen in different areas: cultural context (Ostrower 1997; Moody 2008), the Government tax incentive system (Boskin 1976; Guthrie et al. 2008), compassion driven by different religious beliefs (Wuthnow and Hodgkinson 1990; Ostrower 1997; Green 2005; Berger 2006), economic context (Bergstrom et al. 1986; Andreoni 1990) and the political environment (Berman 1983; Guthman 2008; Kemmis 2016).

Secondly, as the model is entrepreneur-centric, multiple factors may act at a local level, where different cognitive perspectives may influence philanthropic giving behaviour (Arnove 1980; Bandura 2001; Therkelsen 2011).

Thirdly, the country context is identified as a control element. Given the numbers of case studied and the convenience sampling approach, there is a need to test the model further. This provides scholars and practitioners with some insights into whether those factors acting at the country level would influence the philanthropic funders' behaviour; to what extent this would facilitate the social impact; and what the limits and conditions are to duplicating this model in other parts of the world. The further research on those matters would provide us with deeper insights and knowledge to consider and generalise what has been discovered in the particular country of this research.

Finally, the “outcome” cycle refers to the way in which resource interchange has impacted on the professional standards, service procedures and structural changes during the process. Generally, having mixed professional input into the governance (Board of Trustees) is crucial for risk-taking, innovation and strategic direction in each case. The professionals also influence implementation, because their education, expectations, perceptions and interpretation of policy (supply) and market characteristics (demand) are directly related to their philanthropic giving behaviour.

#### **9.4 Seeking a theoretical explanation for divergence and convergence**

This section is structured into three sub-subsections to explain the convergent and divergent features of the four case studies in relation to theory. First, it begins with a demonstration of the changes that have occurred and a further exploration of the change locations. Secondly, change-drivers are investigated and mapped out across the four cases. Thirdly and finally, a tentative attempt is made to suggest a new framework for further analysis, based on the variations studied across the four cases. Strengths and weaknesses of the new model are also discussed. Conclusions are proposed detailing the role of funders as change agents in addressing issues of social change.

##### **9.4.1 Isomorphic changes**

The analysis of the four case studies has revealed that isomorphic change was discernible in the four cases, given the coercive, mimetic and normative pressures. Isomorphism is defined as “the resemblance of a focal organisation to other organisations in its environment” (Deephouse 1996: 1024; also DiMaggio and Powell 1983). The literature suggests that organisations intend to change their practice, seeking similarities due to issues of legitimacy and pressures (DiMaggio and Powell 1983; Scott 1995). However, the cases studied indicate that the initial and central drive comes from individual entrepreneurs (leaders). As this research argues that funders are resource-rich actors, there is no urgency for them to change their practice; however, due to political imperatives and individual entrepreneurs’ internalisation and externalisation processes, reflection by individual entrepreneurs has proved to have a fundamental role in change, in particular when exploiting opportunities for leveraging resources for change. The evidence shows that the funding structure plays a secondary role as a cohesive device to support the change process, because defining and developing such a structure is driven by hero-entrepreneurs (leaders), who thereby play a primary role in change.



An entrepreneur established Case A. The present research has indicated that the founder's name is the most frequently mentioned term in interviews, arguably proving his strong influence in garnering resources. Given the founder's previous commercial banking career (more than twenty years' experience), there was no need to step out of his comfort zone individually to pursue models for change in the community. However, self-reflection and frustration with the Government and market failure was the prime drive for Case A's founder to take a six-month sabbatical trip around the world, seeking a model for innovative funding for Scotland.

Case B possesses abundant capital, endowed by the original founder's personal wealth and the shares in a corporate business that is still operating and generating income. The founder was the only family survivor from the Second World War. All the wealth both from the family and from the business was endowed to Case B, in accordance with the founder's will. Following the death of the founder, the new leadership, led by an individual (hero-)entrepreneur, identified and initiated the need for change: for example, the previous investment company was dismissed, following which there was a 25% increase in value from the capital invested in the stock market, and meanwhile an ethical investment policy was developed to avoid mission drift.

Case C resulted from individual entrepreneurs who have identified institutional gaps and proposed step-change models. Case D has also resulted from the actions of an individual entrepreneur, formerly a leading member of the Labour Party. In reaction to the Government austerity, a new model was proposed: although Case D is independent of Government, the initial capital comes from the Scottish Government.

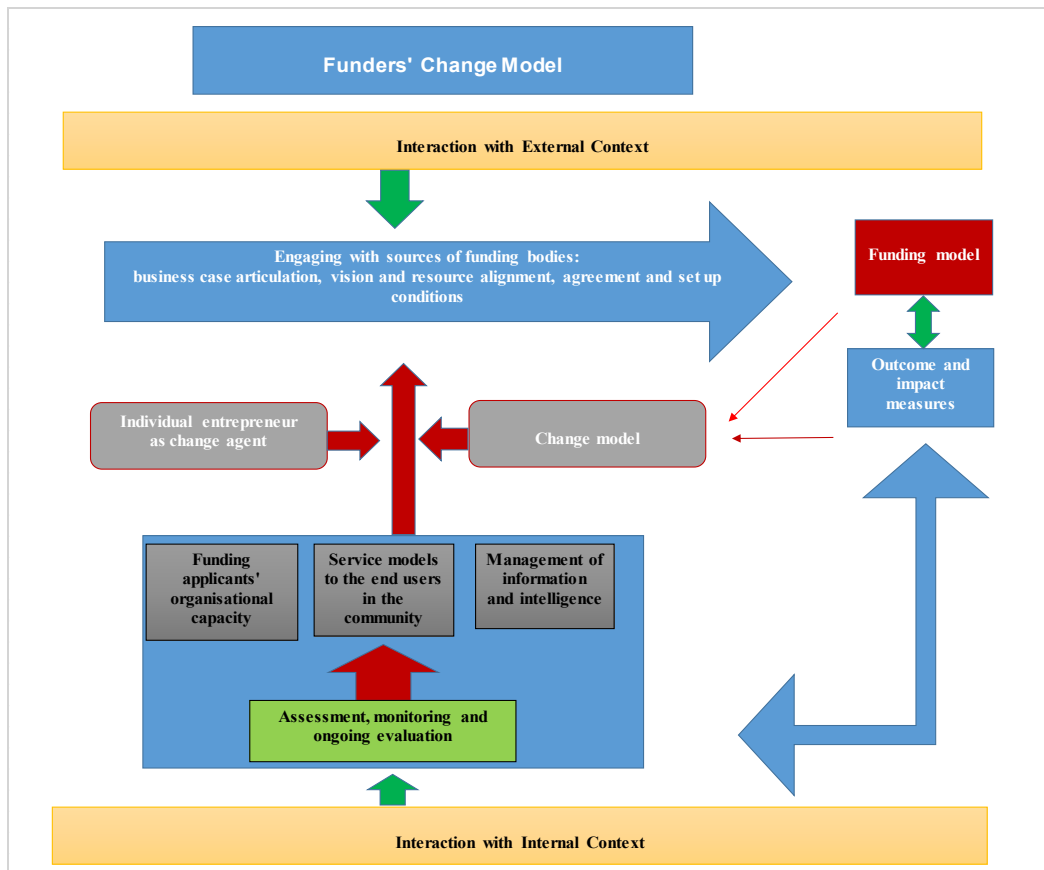
The emerging pattern suggests that no matter whether the organisation is driven by professionals from the private sector, a politician, or a group of think-tank professionals, there is a need to seek innovative solutions for enduring social problems. The "push" is required for innovative problem solving. The "pull" factor is in line with how to survive in the market place with new service and product changes (legitimacy). Between these internal and external forces, individual entrepreneurs are wrestling with the tensions originating from the mixed mission of business and social values; interaction between service provision and understanding the needs of service users. In particular, as a "new" type of funder, they face constant challenges to gain acceptance and evidence of the perceived changes and expected outcomes.

It is notable that business practice adaptation may create uncertainties, fundamentally determined by the input of human resources. No matter what amount of capital is being

injected, ultimately individuals identify the change and drive the change forward. In the four cases, there is evidence of an increasing voice from the private sector, which may play a strong role in shaping change and adaptation of business principles. However, a specialist working as a consultant for the third sector has articulated two sides of the challenges for change: understanding the social issues deeply as well as understanding how to distribute resources effectively in order to grow capacity and independence. This comment addresses the fundamental questions: why change is needed, what has been changed and how one does know that change is being delivered.

Once why and how to change are clarified, funding policy may play a role in addressing what to change, how the resources may be used as a mechanism to contribute to change. Again, in the change process, individuals perceive, interpret and make changes while dealing with conflicts, barriers and dilemmas, factors of which influence at both an operational and strategic level. Diagram 9.3 demonstrates the complexities that entrepreneurs are facing in the process of dealing with tension issues.

Diagram 9.3 demonstrates the complexities of funders' issues when interacting with different actors in the interface between business and society. It maps out the key stages and multiple levels of interaction by entrepreneurs seeking legitimacy through service delivery. The significant challenges are evident in negotiating resource acquisition. For that, in a downward direction, funders need to handle "business case articulation", "vision and resource alignment", and business negotiation for "agreement and set up conditions". Upward, funders need to constantly provide understanding about "the end users' service models", "funding applicants' capacity and capability" to address identified social problems, and fundamentally to keep a close monitoring system to mitigate failure. In particular, the funding model is also conditional to the needs of service users and to applicants' capability.



**Diagram 9.3 The Funders' Change Model**

Source: Developed by author

In addition, outcome measures pose an extreme challenge to funders to evaluate their funding models on a regular basis to understand their own effectiveness. Given the complexities, the interaction process is shown to be iterative. Outcome measures have driven the funders to develop a more rigorous system to monitor the process. This has demonstrated more scientific and intelligence-based decision-making emerging in the four cases.

Changes are inevitable in the process of delivery, with the changes either pushed by legitimacy or pulled by reflection. Legitimacy takes place at different levels:

- First, by agreement with funding bodies as to what extent the capital or other resources are legitimated;
- Second, in designing a funding policy to ensure legitimacy at the organisational level;
- Third, in that the funders' mission is in part relying on applicants to deliver through their financial and support offering, a paradoxical situation is created for the funders. Holding applicants accountable does not mean successful delivery or achievement of social change

or impact. It constantly requires funders to consider internally and externally how they might be more effective in determining why fund, what to fund and how to fund.

Moreover, even the boundaries between the private, public and third sectors are becoming blurred for the funders, the consequence of the cross-sector interactions described. One approach, proposed as a way to align resources and facilitate strategic alliances, is to use private consultants for professional skills development, since new resources are being applied to cross-sector service delivery in particular, and ideas are being fertilised for shared objectives within a new working model. Potentially, this might lead to three kinds of isomorphic change – coercive, mimetic and normative.

### 1) Coercive isomorphism

According to DiMaggio and Powell (1983), external pressures in the operating environment may drive coercive isomorphic change. Moreover, examination of the four case studies has confirmed that external pressures do indirectly influence funders. The Government budget cuts have increased the expectation on funders. Thus, this shift in demand has accordingly influenced the Government's supply-related funding policies. In particular, the Scottish Government acts as a main financier for two cases (A and D). Moreover, although Case B was independent and unrelated to Government, it has shown its efforts and desire to engage with the Scottish Government, although previous efforts have been unfruitful. Its strategic funding focus is established linking to national outcomes. The leaders of Case C have lobbied parliament, championing sector changes. The present research has found that external pressures impinged on all four cases indirectly; however, more directly, they pushed the funders to work closely with the Scottish Government in relevant policy areas. The indirect pressures have resulted both from political imperatives direct from the Government (Cases A and D) and via the initiation of hero-entrepreneurs (Cases B and C). It is interesting to observe that the association with the Scottish Government is evident in capital injections to funders in the form of both grants and loans.

Furthermore, coercive isomorphic change may also be driven by the policy shift towards measures based on outcomes. Changed practice on outcome measures is seen in all four cases. The requirement for measures based on outcomes has resulted in ambiguous definitions and challenges concerning how to measure social outcomes; how to manage shifts in expectation from the perspectives of both funder and recipient; how to ensure that shared objectives are being delivered; and how to use the funder's role as a resource channel in the change process.

The evidence suggests that addressing ambiguity has pushed funders and recipients to work more closely with one another. Different business measurement tools are applied in the four cases; for example, a balanced scorecard (Case A); a SMART tool; the data demonstrate a strategic change on impact measures (Case C); and operating with centralised loan management based on banking practice (Case D). The reinforcement of these business tools indicates isomorphic pressure arising from mimicking of business practice.

## 2) Mimetic isomorphism

Mimetic isomorphism is a strategy devised in reaction to uncertainty (DiMaggio and Powell 1983). Regarding the four cases, when responding to coercive pressure uncertainties are seen in relation to the Government policy as well as in terms of the strategic implementation of change strategy. Thus, mimetic behaviours emerge from uncertainty. Motivated by effective delivery and social changes, and focusing on a service-orientated model, all four cases have responded and adopted or adapted to private sector strategy and practice. The phenomenon has resulted in three main isomorphic pressures for philanthropic funders: a) streamlining social service delivery more effectively and efficiently; b) assimilating business techniques and practice; c) and seeking for homogeneity of service due to peer pressure. Furthermore, these three pressures have potentially contributed to the change process in terms of dealing with uncertain outcomes and measurement standards. In addition, particular evidence was shown in all four cases relating to the process of seeking a profit and non-profit combination encouraging the identification of a unique model for creating blended value.

## 3) Normative isomorphism

Normative isomorphism refers to changes in professional standards driven by coercive and mimetic pressures (DiMaggio and Powell 1983). Cross-sector interaction and increased exchange are seen in all four cases. Individual sector standards and professional knowledge inevitably change in response to cross-sector involvement, as witnessed in all four cases. For example, increased opportunities arise as a result of inviting external expertise to deliver training workshops and through bringing in management consultants and employing more people with multi-sector experience. These developments promote the ideas, values and problem-solving approaches of each case, and may eventually contribute to normative isomorphism, that is to say gradually embedding the new professional style, standards and culture within the organisations.

However, although the majority of respondents felt enthusiastic about change and new models, the present research did reveal a small proportion of negative voices. In addition to barriers, the following paradoxes were identified from the research:

a) The blended value tension

First, overall, the sector continues to embrace social values, including the conventional grant-giving approach. For example, a community leader with thirty-five years' experience expressed an inclination towards investment and business approaches in services for elderly disabled people, whereas, in fact, they preferred a small, friendly and local community-based voluntary model. Evidence reveals that in all four cases, efforts are made to preserve social-orientated values to avoid drifting away from the mission while applying business principles. The social and financial value is balanced by bringing different actors together. An attempt is made to make equal contributions and input in the problem-solving process, and then control is applied. However, adapting the business model has never proved easy in philanthropy because such adaptation is not simple, nor can it be handled in a quantitative way. Rather, it requires deep understanding of social issues and its application to the relevant contextual environment. Therefore, in philanthropy, justification is constantly required throughout its processes, to enact beliefs, implement policies and monitor progress. Accordingly, change in governance may help: for example, to generate a suitable structure and system for absorbing ongoing change, to mitigate the inevitable risks and to handle innovation.

b) The resource tension

Secondly, philanthropic resources face a natural paradox in “giving” and “taking”. “Giving” refers to what to give, under what conditions. “Taking” refers to what levels of information and understanding are required, and to what extent the effects of giving are evident. Reflection is shown in the four cases, constantly dealing with paradox as an ongoing practice, and particularly when providing loans to those organisations that do not meet the terms of the commercial banking risk-rating system.

One informant (a senior banker) indicates that even for some resource-affluent organisations, there is pressure to move into the borrowing zone, since interest-free grants are generally conditionally linked to loan packages.

“It’s [change model] an approach to make people think about what they do, possibly slightly defensively, because anything new is in some way an implicit criticism of the old.” (Chairperson – Case B)

“It might be gently and never aggressively, but if someone is asking you to take yourself to pieces in a way to review each bit and say, why are you doing this? Why are you doing this for this long? What does this cost? This can be quite uncomfortable.” (Senior Manager – Case A)

These quotations indicate some elements of change. First, reflection and a critical review attitude are important for any change within philanthropic funders. Secondly, the quotations suggest the challenges and uncomfortableness faced in philanthropic changes; they require a mind-set for change and development of new structures even without radical approaches.

A wide range of mixed voices is heard in Scottish communities, responding to new concepts. For example, “moaning”, “embracing change”, “seeing change gradually”, “frustrated with the slow pace of change”, “deep learning curves”, and “exploitation by the private sector”. These diverse voices present mixed emotions, reactions and needs *vis-à-vis* loan finance.

Critics indicate a negative attitude towards capital injections to the funders from the Government public funds. It is a controversy, however, that the present research is not in a position to probe further. It would be valuable for a separate research project to investigate the relationship with the effect of the Government’s involvement in a more detailed manner.

Moreover, as social needs are diverse, Case D provides tailored services. Other funders in dealing with each individual organisation’s needs may consider this approach. Proactive learning is seen as an important part of the adaptation process. Although funders face an open system, interacting with multiple-levels of knowledge and information, the evidence shows the importance of reflection throughout the dynamic change process.

#### c) The accountability tension

Thirdly, mixed opinions are heard among grant-holders during the process of implementing business-orientated approaches: for example, it takes a long time for people to understand and accept the notion of change when it has not been witnessed. Therefore, accountability has been problematic because how to measure social outcomes has been challenging. Incremental change, for example, changing the measurement metrics, occurs during implementation of the

policy for change; collaboration also emerges in the gaining of more understanding, thus creating new “know-how”.

Whilst pursuing resource efficiency, the philanthropic funders have pushed themselves and their authorised grant-holders to demonstrate outcomes. However, the measurement has to be realistic in two regards: 1) explicit definition of what is to be measured, and 2) explicit articulation of what measurement is regarded as having valid data value. Self-motivation in funders is increasing, which has led to pursuing more market-based knowledge and a scientific approach to demonstrating accountability through a monitoring system, internally and externally, as well as to the establishment of new procedures, policies and processes.

Furthermore, all four case studies justify their positions as being in between administration (bureaucratic) and innovation (providing freedom and space for innovation and risk-taking). On the other hand, the four cases are learning how to manage relationships with grant-holders in line with change factors. With the exception of Case B, the other three cases actually take a longer time for decision-making. Ironically, Case B has ended up putting more resources towards managing delivery of the change strategy. Although outcome-measurement cannot be fully achieved in the four cases, it seems that this has become a factor for change in raising professional standards and change in practices.

#### d) The professionalisation tension

Mixed professional inputs are guided by the funders’ central social objectives. Due to accountability, expectations for professional standards have increased in the four cases. In translating business principles into philanthropy, business practice should be adjusted and tested. Uncertainty is another issue that professionals need to deal with in practice. Learning by doing has contributed to resolving the paradoxes of contradictory professional standards. One way is for professionals to develop solutions through action. On the other hand, this has also encouraged homogeneity of service provision in terms of institutional collaboration. This might be caused by the awareness of being unknown, or being the first pilot, and, thus, to mitigate the risk of uncertainties. However, evidence shows that taking risks by the professionals from the private sector is a natural and normal practice (according to their reflections). A market risk-assessment approach is utilised to understand the risk. On the other hand, risk-mitigating tools are utilised in all four cases, such as, for example, by giving the recipient a trial period in order to watch its behaviour with regard to improvement.



#### 9.4.2 Drivers for change

Taking the isomorphic process into consideration, as discussed in the literature review chapter, three types of pressure may drive isomorphic change, namely coercive pressure (power relationship and politics), mimetic pressures (influenced by peers) and normative pressures (dominant power of similar professionals) (DiMaggio and Powell 1983; Boxenbaum and Jonsson 2008; Greenwood et al. 2008). Further evidence is presented by the four cases regarding the institutional pressures in isomorphism both in the internal and external environment, illustrated in Diagram 9.3. Table 9.3 displays an analysis of isomorphic pressures for organisational changes in the four cases. It provides an insight into understanding the forces shaping the organisations' behaviour.

**Table 9.3 Analysis of Isomorphic Change Pressures across the Four Cases**

	Case A	Case B	Case C	Case D
<b>Political pressure</b>	Yes	No	No	Yes
<b>Mission</b>	Yes for sectoral change	Yes, changed mission and service	Yes, to implement change in business model	Yes, for changing financial capacities
<b>Accountability</b>	Yes, both internally and externally, driven by change models			
<b>Resources</b>	Heterogeneous	Homogeneous	Heterogeneous	Heterogeneous
<b>Professional standard</b>	Increasing standard, heterogeneous resource inputs			
<b>Coercive pressure</b>	Yes	No, but creates coercive pressures for recipients	Yes	Yes
<b>Mimetic pressure</b>	Yes, while dealing with uncertainties			
<b>Normative pressure</b>	Yes, while adapting business-principles			

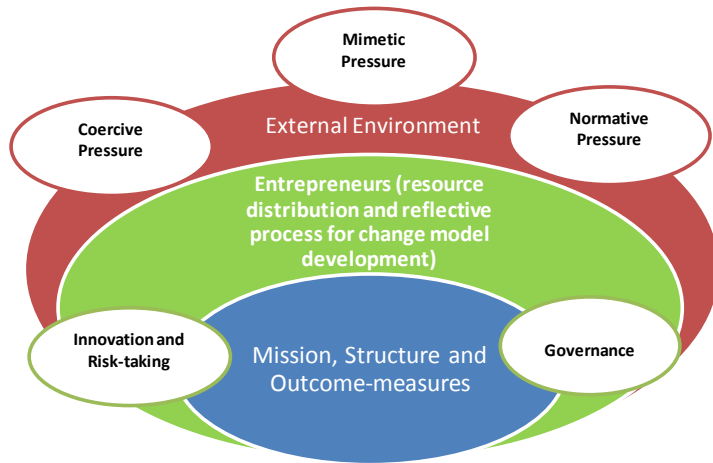
Source: Developed by author

For example, Cases A and D are both in part supported by the Scottish Government, which implies a high level of political pressure. Changed mission and accountability imply that the internal actors create pressures. Once it is launched in public, a funding project faces legitimacy pressures on two counts: 1) achievement of resource redistribution towards selected projects, and 2) symbolic legitimacy in terms of public reputation. While implementing the change model, uncertainty may draw different professionals to work together. In practice, peer funders, especially those who are influential in the field, face mimetic pressure for change. Assimilating the ways to increase professional standards, which may generate favourable voices in adapting practice and structure (Galaskiewicz and Burt 1991; Boxenbaum and Jonsson 2008; Greenwood et al. 2008), the training and increased activities for professionalisation are evident

across the four studies. Similarly, the four cases show that mission change and accountability have led to mimetic and normative change.

While Cases A and D show high levels of coercive pressure, given the Scottish Government's capital input, less influence is shown in Cases B and C. However, it is argued by scholars (Tolbert and Zucker 1983; Boxenbaum and Jonsson 2008; Greenwood et al. 2008) that coercive pressures may be more effective than mimetic pressures in shaping new practices. Referring to Diagram 9.3, funders interact constantly with actors in the external and external context; it demonstrates contextual forces which both have possibilities to impact on changes. It means funding models are dependent on the changes in the society and community. That is to say, the financial injection from the Government arguably has a high likelihood to impact on the way funders will leverage other resources, and design models for social change.

Internal change is mainly driven by entrepreneurs (leaders). Even when dealing with external forces, it is still fundamentally determined by the response from entrepreneurs, who decide on the resource distribution and acquisition process and to what extent to develop political or non-political alliances. The evidence indicates a close association with beliefs, values and methods of handling social problems, and with approaches to mobilising resources for social purposes. Significantly, the findings suggest that decision-making concerning resource distribution, and the associated alignment of resources, is very much related to key actors involved in the initiatives. Contextualising the funders' engagement process into an organisation, another integrated model is presented in Diagram 9.4. This model illustrates the following features: 1) it sets up a framework linking a funder to its internal and external change forces; 2) it identifies that entrepreneurs play a central role in leading the change process; 3) it provides an interactive picture between external pressures and internal forces on entrepreneurs; 4) it illustrates that concepts such as mission, structure and outcome-measurement may shape the similarities between funders; but that 5), the differences are, however, driven by the different entrepreneurs, who influence the shape of governance, innovation models and risk-taking.

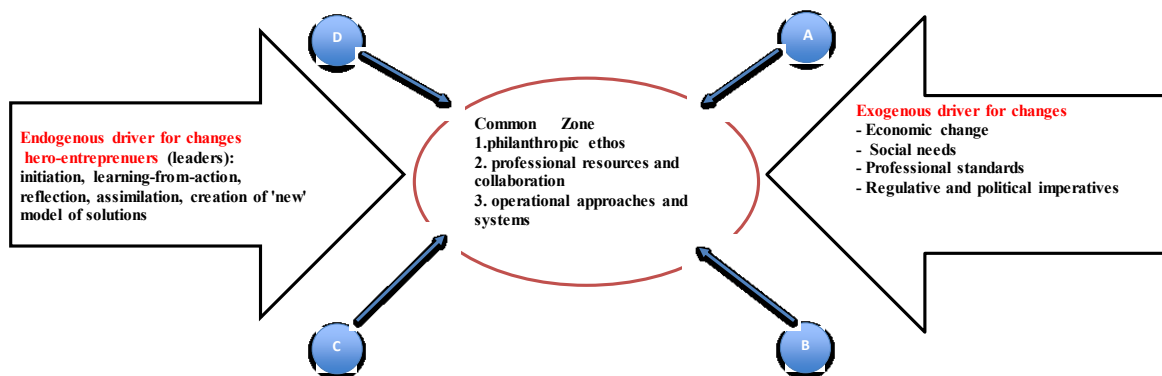


**Diagram 9.4 An Integrated Model of Funding Distribution Process and Change Forces**

Source: Developed by author

#### 9.4.3 Proposing a convergent model

The evidence suggests that the four models tend to work towards each other with isomorphic change. Heterogeneous resource inputs have influenced professional practices and standards. Mimetic pressure, normative pressure and coercive pressure have more or less pushed the four cases to a central zone to seek new models at a macro-level. This has resulted in a convergent model derived from empirical study. Although collaboration is important, the question of how to collaborate is worthy of further exploration. Diagram 9.5 indicates the change agent in the four cases to be individual entrepreneurs who lead the organisations' mission for change and grapple with the supply and demand of resources through ongoing risk-taking and decision-making.



**Diagram 9.5 An Isomorphic Convergence Model**

Source: Developed by author

Likewise, external pressure may become the force that drives collaboration, due to the need for social or economic balance, yet active imitation and learning appear to be commonly shared drivers to collaboration.

The thematic analysis suggests isomorphic change in all four cases potentially shaping a new environment for philanthropic giving. This means that each model starts from a different position; then, while they are developing and implementing separate change strategies, a common zone emerges. This emergence is demonstrated in three ways. First, the shape of the common zone is informed by the similarities of philanthropic ethos, motivation, ways of operation, the use of business procedures in governance and practice, and expectations regarding outcomes. Based on these factors, arguably similar actors driving similar actions may shape new norms, for example, forming new professional practices and new funder-recipient relationships. Once the practice is in place, this potentially can lead to a new model, where philanthropic giving goes beyond cheque writing but requires scrutiny, accountability and outcome-measures through new funding structures. The change mechanisms provided by the funders have also played a role, aiming for changing perceptions, awareness and, arguably, in agreement with Moody (2008), shaping a new cultural repertoire in philanthropic giving.

Secondly, funding structure changes seems to be emerging in the shift from hands-off to hands-on engagement with a deepened understanding of social needs; the evidence suggests that all four cases have monitoring systems for capturing information and communication with different actors, including recipients. Significantly, hero-entrepreneur individuals (leaders) have played an interactive and integrative role in this process of learning-from-action (practice). Both internalisation and externalisation are seen in the four cases through the individual entrepreneur's reflective process. Across the four cases, individuals, who then have gained support from various funding sources to take change forward, initiate changes. This activity has also included persuading people who hold different values and opinions about the value of change, therefore, to support change at the Board of Trustees' strategic level. Once agreement is sought at board meetings, hero-entrepreneur individuals have embarked on leveraging resources and setting up systems for change. In fact, the change process has been implemented through a central system designed to capture information and communication, specifically regarding understanding of changing social needs, regulative and political imperatives and market shifts in the operating environment. Moreover, ongoing change is seen, which may suggest that funders are sensitive to their operating environment and that they

should be constantly alert to external change. However, external change needs to be proactively reflected on and identified by hero-entrepreneurs who lead the change process.

Similarities have also emerged in hands-on engagement: for example, assimilating business practice, using different business measurement tools. Mutual lessons can be learned. The study of the process has provided an evidence base for understanding the evolution of funders (using business principles), as pointed out by Moody (2008). This discovery strongly suggests that funders potentially have the capacity to act as change agents for communities, because their starting-point as resource-rich actors works in favour of gaining public legitimacy (status) and leveraging resources (symbolic). Arguably, the funders' resource channelling role has placed them in an advantageous position to act as agents of change. However, the endogenous drivers for change are seen to be individual entrepreneurs who are willing to initiate/lead/leverage resources for change and proactively reflect on the change process in order to create new models for resulting solutions, rather than staying in their comfort zones just writing cheques.

Thirdly, as demonstrated in the cross-case comparison in Chapter 8, the four cases also exhibit differences in service design. The major difference is in their strategic focus on market segmentation. Each of them has specified a different view on its service users and problem areas. The pattern shows an incremental trajectory for change amongst the funders: for example, Case B (community service user – change at micro-level); Case A (sectoral change – macro-level); Case C (step-change – meso-level), Case D (financial capacity change – macro-level). The actors gravitate to a common zone, where collaboration amongst the four cases can be seen: for example, between Cases C and D; between Cases A and D with Scottish Government support; and Case B's intention to collaborate with peer funders and the Scottish Government. New relationships are formed in sharing resources: for example, funder collaborations, founder–government–corporate collaboration, collaboration with professional advisors and among Trustees with multiple roles across different sectors (parliamentary cross party, CEO of an operating charity, bankers). The pursuit of legitimacy (accountability both to the public and internally) may drive the four cases into collaboration. It is interesting to note that six funding-recipient organisations amongst the interview samples are co-funded by more than one of the four case organisations. A Senior Manager from an ethical bank in Scotland indicates an intention to develop a regional collaboration model to bring different funders together. Given the current change trajectory, this might represent a future development. The advantage of such a regional integrated model would be for resource efficiency and enhanced focus on problem areas. The disadvantage may be seen, as with the Big Three funders (the Ford

organisational funder, Carnegie, and Rockefeller), of creating a dominant power, adversely affecting the equality agenda among funders: for example, a small community-friendly association might not have a chance to receive support due to its limited capacity. A CEO from an association for elderly people in northern Scotland has voiced concerns about being pushed by forces for change in spite of its being happy to retain a small operational model with a voluntary and renting basis rather than growing and duplicating a larger operational model. Therefore, setting up mechanisms to balance equality among services should be given a high priority to enable the community members to make their own decisions. It will make philanthropic giving more meaningful if the funders ensure the ethos of equality, being interpreted by the organisations providing services for disadvantaged groups, as well as providing a mechanism to empower them to participate in the decision-making process.

## **9.5 Conclusions**

The third sector is currently facing extra economic pressure at a time of Government budget cuts. However, generally funders as organisations possessing financing assets are an exception. Although the ACF (2014) Report indicates that UK funders are facing a dilemma over how to re-evaluate the management of resources in the wake of the financial crisis, the reduced interest rate may diminish the philanthropic funder's income from its bank reserves. However, the four Scottish case studies appear to have sufficient financial capital to operate. Rather than them appearing to be distinctively different, the findings suggest significant convergence among the four cases. Conceptually, all four cases have shifted in the same direction, with increased capital, longer terms, and closer or more engaged support. This has resulted from the changes in the funding structure and outcome measures and the adaptation of business practices. In addition, political imperatives and willingness for political engagement are shown and derived from the ethos of resource synergy.

Interestingly, one Trustee from Case B reflected that change is not driven by financial austerity, since the funder possesses a comfortable amount of capital resource (endowment): for example, Case B earned more than half a million pounds in investment income in 2012. In addition, a developed investment strategy has increased capital interest by approximately 25%. Furthermore, the respondent stated that the changes are driven by the motivation of the leaders, and their ability to spot management and organisational issues (investment pitfalls and overly-diversified objectives), and to persuade other Trustees to agree with the strategy for change. Although actors whose views are subjective propose the change strategy, a process is in place to translate this subjectivity into an objective perspective, requiring information, evidence,

knowledge and mutual understanding. Only when mutual understanding is formed can new knowledge be accepted and adaptations be made and fitted to the purpose. In particular, the new shift to a rationalised strategy is based on scientific evidence from the research on children's development presented by the Scottish Chief Medical Officer. Moreover, the efforts of the entrepreneurs are evident as a gradual force and as incremental knowledge for change in Case B.

Similarly, in Case A, from the personal perspective of one Trustee, a successful senior banker, there was no pressure to set up a funding scheme in terms of survival. However, driven by his accumulated knowledge from working at the interface with the third sector, and the impetus for change, specifically with regard to seeking an innovative model for Scotland, Case A resulted from the entrepreneurial attempts of the founder to apply rationalised thinking and a sectoral change model. Rationalised thinking involves amassing and utilising evidence and knowledge: for example, taking a six-month sabbatical abroad to study innovative models, as well as to analyse and mobilise resources for the Scottish model. The strong beliefs of this individual are interwoven into the organisation, which is focused on one main issue of working harder and working longer, so that, eventually, the desired effects and outcomes will present themselves naturally.

Similarly to Case B, Case C, as an endowment trust, was established with comfortable financial resources and without pressures. Also similarly, it was leaders who have worked in the sector for many years that initiated the set-up of the new operation. Having witnessed the institutional gaps, the intention for change was divided into two levels: a) to redress financial inequality in money-lending between private organisations and social organisations; and b) to prepare the third sector for borrowing money. Therefore, initiated by entrepreneurial leaders, institutional collaboration developed between the two types of funders.

Finally, although Case D originated with the Government because of a foreseen economic pressure, the first group of four organisational financial investors was initially driven by invitation from the Government. Unusually, it was driven by political imperatives, with no financial pressure at the time, because the risk relating to the amount invested was bearable for the banks even if all the investment was lost, as pointed out by a senior bank Director who was involved in the early stages of the initiative. However, the survival of third-sector borrowers to the point of making repayments has challenged this sceptical attitude, and this is mainly due to the efforts of the social entrepreneurs rather than the funding structure itself. There is little

evidence to suggest that any change strategy developed from the two previous leaders. This occurred with the third change, when individual actors (leaders) demonstrated their desire and efforts for a transformation of their commercial skills, utilising a consideration of contextual factors in the third sector. This has been exemplified in the launch and implementation of the Growth Strategy.

The attributes shown in the four cases regarding the entrepreneurs seemingly echo the categorical features of social entrepreneurs identified by Kramer (2009). They are generation of “profitable income as a surplus” (Case B), expansion based on “charisma and ambition” (Cases A and D), and reconceptualisation of the new by creating “system change” (all four cases). In all four cases, the hero-entrepreneurs have demonstrated their attitude, commitment and action in finding new ways of doing things for the community, particularly in the process of mobilising resources. Significantly, active action-based learning is observed across all four cases. The learning system and the desire for learning have created new knowledge, which is incrementally utilised in the development cycle of implementing new policy.

On the other hand, five innovative combinations are found in the four case studies: introducing a new product or quality of a product (Case B); utilising a new method of production or distribution (Cases A, B, C, D); taking existing products into new markets (Cases A, B, C, D); drawing on a new source of supply (Cases A, B, C, D); and creating a new type of organisation or industry structure (Cases A, B, C, D). Moreover, the new production, new quality, new methods of distribution, discovery of new channels, identification of new markets and new supplies have arguably generated three key findings:

- 1) Convergent features show that individual actors (entrepreneurs-turned-philanthropists) have played a predominant role as initial change-makers, both initiating change and marshalling resources for the change process, for the achievement of shared objectives.
- 2) Each of the four funders plays a distinctive role as an active and reflective agent for action-based learning, classified as distributed learning at all levels, which has contributed positively towards change outcomes throughout the process of translating business practice into philanthropy. This has redefined the market and aligned the resources required. Thus, a pattern of homogeneity in service delivery is seen in the Scottish funders.



- 3) Regarding the supply of resources, ongoing change may continuously stimulate changes in demand, in particular through the authorisation process, with both integrated financial and non-financial support.

The final chapter presents the empirical conclusions, implications and reflections for future research.

# Chapter Ten: Conclusion and Reflections

## 10.1 Introduction

This research aimed to develop an understanding of the emerging phenomenon of VP. The approach taken was comparative case studies in Scotland. More specifically, the research explored the similarities and differences in four types of funding models addressing social problems. The focus was on engagement processes, among which was how business methods such as VC practices may be adapted to facilitate social funders' behaviour.

This chapter, thus, concludes this thesis by evaluating the core arguments raised in this research through asking the key research question: "To what extent may organisational perspective influence funders applying VP as an innovative approach in the funding process?" This question is addressed by comparing four funders' approaches against a series of themes, focusing on "why", "how" and "what" to give. The four types of approach are as follows: VP grant-giving (Case A), grant-giving but applying business approaches (Case B), mixed grant and loan (Case C) and loan finance (Case D).

According to early arguments in the literature (prior to 2014), the debate on various VP models appears to be divergent. However, convergent characteristics and isomorphic change are evident in the four models studied resulting from the process of adopting and adapting business practice in order to deliver their social mission. Despite the different strategies and different types of funding model, similar paths of change are evident in the four cases through increased level of engagement with funding recipients.

This research enhances Mair and Hehenberger's (2014: 1190) argument regarding VP and TP "toward mutualistic coexistence" through practice. The four cases have demonstrated tendencies that show how convergent funders move forward to a mutually agreeable area of similarity for shared aspirations, which may be helpful in shaping deeper collaboration and reframing the funding model in practice for greater impact. It can be claimed that this research has provided exploratory insights to extend Mair and Hehenberger's (2014) argument on three counts: a) by presenting micro-change factors and depicting the merging paths of funders, b) by demonstrating potential spaces for alternative funding models beyond the four types being studied, and c) by presenting a holistic path linking aspects such as motivation, funding model and engagement process and demonstrating insights into what is happening in one national context.

The research also demonstrates a definitional feature of funders, from the perspective of organisational behaviour dealing with social changes. This may be termed as “entrepreneurial philanthropy”. Shaw et al. (2013: 581) refer to it as “entrepreneurs’ involvement in philanthropy” addressing persistent social issues. Dees (1998b: 4–6) argues that entrepreneurship behaviour should have five definitional characteristics:

“adopting a mission to create and sustain social value”, “recognising and relentlessly pursuing new opportunities to serve that mission”, “engaging in a process of continuous innovation, adaptation, and learning”, “acting boldly without being limited by resources currently in” and “exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created”.

It is interesting to note that the above features are evident in the four cases studied. In addition, the study not only demonstrates funders being entrepreneurial as a distinctive feature but also shows how the funders respond to change, deal with change, and are the agents of change while finding new and better ways for mobilising and deploying resources to make the world a better place. In addition, the funders’ ongoing commitment and efforts are evident as they seek improvements to their service as well as implementing a change model in order to improve the support system in the third sector.

Differing from criticisms of VP in the literature as an “aggressive” market-oriented approach, the findings show that the adaptation is not taking any off-the-shelf models, but configuring a new model in the new context, considering a more focused strategy in social problem-solving rather than being merely generic without a strategic target. The evidence is present especially in the strategic changes that have occurred and the new types of governance, including a motivational shift. In some cases, the changes are significant.

In addition to the motivational shift, the findings demonstrate an increased level of expectation in outcome measures. Driven by this high expectation, a new central management system is built in and developed on an ongoing basis, as a response to the changed funding criteria. The changed operational approach has accordingly shaped different relationships, such as, for example, closer funder–recipient relationships and cross-sector collaboration. In the closer engagement process, a considerable amount of mixed resources (capital resources, skillsets and knowledge inputs) are brought in from the private, public and third sectors and blended together. Naturally and purposefully, cross-sector development brings new actors with

different perspectives, different knowledge, skillsets, information and expectations to the central point via funders as an aid to problem-solving. Hence, individual entrepreneurs as the change agents not only lead the process, brokering the resources, initiating the changes and creating space and time for converging focused efforts but also work with the Boards of Trustees to structure and provide directional guidance to the funding organisations. It is noted that, individual entrepreneurs deal with a two-way flow of information, knowledge and decision-making between the donors and the funding recipients, shaping a centre ground by breaking the boundaries of the three sectors, merging the three sectors' resources for joined-up problem-solving.

The focus of the present research is through the lens of the entrepreneurial process (resource marshalling and legitimacy), which allows for the exploration of a funder's essential role as a social-financial channelling body. By contextualising entrepreneurial practice in an organisation, an integrated model is created based on emerging forces for change. Entrepreneurial processes are regarded as the actions of individual entrepreneurs who identify opportunities and resources for change and lead the change process. By synthesising emerging themes and notions, this study contributes to the theory on social funders, provides guidance for empirical advances and offers policy and professional advice. It concludes by suggesting potential avenues for future research.

## **10.2 Theoretical contributions**

Addressing the overarching research question, theoretical contributions are made in three areas. First, isomorphic changes are identified in the four cases. This has highlighted micro-level factors important for understanding the funding type of organisations (Greenwood et al. 2008). In addition, this also provides new insights in understanding the ongoing change needs of social funders and shows the evolutionary path.

Secondly, “entrepreneurial philanthropy” and “pursuit of professional standards” are discovered in all four cases. Entrepreneurial philanthropy echoes the entrepreneurs' five approaches to creating “newness” (Dees 1998b, 2001) quite clearly in the four cases. Damon and Verducci (2006) highlight pursuit of professional standards as responses for serious philanthropy in their book *Taking Philanthropy Seriously*, driven by this purpose of design philanthropy with rational thinking, the giving is moving to being oriented towards being strategic and providing efforts in “designed giving”. The new perspective is presented in the current research based on a single-country study. Currently more attention is paid to the global

delivery remits of funders such as the Bill and Melinda Gates Foundation, while country-level funders are being neglected. This research has filled the gap by providing a set of parameters for understanding funders situated at country level so the comparison can be controlled in the same context. Different contexts might generate different aspects to consider: for example, the tax system differs in different countries (Boskin and Feldstein 1977; Colombo 2001; Vogel 2006). Cultural differences may also impact giving behaviour (Feingold 1987; Odendahl 1989; Ostrower 1997).

Thirdly, building on the argument in Mair and Hehenberger (2014) concerning the co-existence of TP and VP, this research discovers diverse funding models and individual entrepreneurs who leverage collective entrepreneurs' efforts towards the delivery of a strategy for change. Through the change process, due to uncertainties and the unexpected, reflection is seen in the governance (the TB) in all four cases, which leads the learning and development process through convergent action. In this process, entrepreneurs act as change agents to facilitate internal and external learning, development, activities and knowledge for better service provision, including creating a central service to adjust the criteria and expectations with regard to legitimacy. This discovery echoes Nicholls (2010a), showing entrepreneurial funders as resource-rich actors who create a change system and broker resources for change on an ongoing basis. In the following section, the three areas of the theoretical contribution made by the present study are discussed in detail.

#### 10.2.1 Isomorphic change discovered

Isomorphic change is evident in all four cases. Isomorphic change may be understood as funders becoming similar, in their relentless effort in seeking an innovative business model, achieving social impact and mobilising resources for addressing social change. Instead of the traditional discipline of philanthropy merely looking into a polarised aspect of development in either the business or the social arena, it is clearly evident that funders cross boundaries and sectors and take risks in exploring improved conditions and services for the community. Hence, this study might provide a lens for funders doing social good, offering them an alternative model or a new approach to service design blending social and financial values in their funding model. Although funders have different funding strategies and models, targeting different service-users and adapting different innovative models, a similar shift trajectory is shown in the following areas.

Firstly, there is motivational shift. The four funders are moving away from the area of being purely altruistic, merely remaining in an arm's-length relationship with funding-recipients, to demanding outcome measures. Driven by an understanding of needs and ensuring the appropriate measurements, all the funders are driven to collaborate with the various actors.

Motivation, in terms of why to give, proved to be a fundamental factor in determining resource marshalling and legitimacy, as motivation is influential towards legitimatised service-users, specific purposes and given conditions. A distinctive shift in trajectory within each of the four cases is evident, from emotional giving towards rationalised giving, from transactional approaches to relational approaches through more enhanced engagement. This motivational shift has resulted in a corresponding transition from a unitary approach towards one that employs multiple resources through compound and convergent resources and efforts for social problem-solving.

Strategic efforts are sought and seen in a more focused manner with specified objectives and refined and targeted service-users. This new-found desire has resulted in the shaping of new relationships through closer hands-on engagement with funding recipients. On the other hand, the new actors from the private and public sectors have contributed to this motivational core due to their different expectations, values, beliefs, ways of solving problems and professional backgrounds. The merged professionals are negotiating shared agendas and co-creating solutions through funders. Funders are seen as a new space for the contradictory motivations (altruism and rationalised giving) to join up to shape a new form of philanthropy. These results are seen in the old-style linear stewardship (one-way relationship) and patronage relationships moving increasingly towards multiple partnerships through the private, public and third sectors. Distinctively, apart from Case B (monetary resources-wise), resource heterogeneities are emerging (shown in mixed monetary resources and professional inputs) in funders for the delivery of social services. In the shared space, collaboration is seen in all four cases.

Comparing the study by Coombs et al. (2008) of the entrepreneurial funder's motivation in the United States with regard to the entrepreneur as agent of change, the three models proposed are "immortality striving", "legacy creation" and "generativity" (Coombs et al. 2008: 1). Those are more positively associated with social funding resources such as monetary, volunteering and knowledge inputs. Immortality refers to entrepreneurs-turned-philanthropists' "wish to provide support for future generations". However, the four cases seem to provide some new elements, such as the Scottish Government's input and mixed professional inputs. The

motivation is seen in seeking pragmatic change solutions. While there is a tendency for the big financial donors (apart from Case C) not to be motivated towards taking control of the giving process but to entrust it to professional bodies to be managed scientifically, given the different motivation, the involvement of corporate staff members is considered as continuing professional development opportunities with new contextual knowledge, provided to the private sector. Therefore, this research argues that mapping out the underlying motivational factors has contributed to understanding the drive for social or economic changes (Acs and Phillips 2002; Coombs et al. 2008).

Secondly, there is strategic shift. All four case are moving to a central common zone, being more focused and working on more specified objectives and more refined service areas rather than generic social objectives. In the past five years, Case B, has changed strategic direction twice in narrowing down their service users. The strategic shift has pushed Case B to establish a new central management system, capturing information and knowledge and providing analytical tools to refine the operational model. This has enabled improved knowledge about service-users.

Thirdly, there is a shift in governance. All the four cases are moving towards an increase in risk-taking, improved professional approaches and innovative approaches by also adapting business practice to setting new rules. Evidence suggests that increased mixed sectors' professionals have joined in, so adding multiple dimensional skillsets in the governance board. Risk is shown in Case B replacing the previous investment company, whereby its investment incomes have increased by 25% in 2013. In setting the rules, it has changed its criteria: an online application is compulsory, which is believed to be an effective investment in a resource-efficient system. What is more, another typical feature seen is that in three cases (not Case C, VP grant and loan), none of the donors sits on the governance board. This may be seen as a typical country characteristic, preserving "social value"<sup>33</sup> as the top priority, which might be influenced by the desire to avoid door-keepers and to pursue more objective and scientific approaches; the adaptation of business approaches is, therefore, overridden by business purposes. Although this is not an appropriate place to debate the controversial role of the SENSCOT "voluntary code of practice" which has been practised in the country, one might argue that it might be a differentiation point from other parts of the world, and supporting the community assets being kept or redirected back to the pool of community resources. To a

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<sup>33</sup> A Voluntary Code of Practice for Social Enterprise Draft 4- SENSCOT (09.02.2012)  
[http://www.senscot.net/view\\_art.php?viewid=11965](http://www.senscot.net/view_art.php?viewid=11965)

certain degree, its purpose is to protect social capability or the third sector from exploitation. It also sets up boundaries of what profit-making is for between social and commercial businesses.

Fourthly, there is operational shift. All four funders have adopted and adapted scientific approaches through outcome measures. Although Case B understands the challenges and difficulties of measuring social impact, various changes in operations have occurred: for example, extending the funding term from one to two years or three years, with the intention of extending it to five years. Case B has shifted from an arm's-length relationship to a closer engagement in the funding process. Case B hopes to gather more information to support decision-making and the refining of the funding model. Findings suggest that different funders are in the process of developing a system for scientific giving. One way is to help various funders to understand the social needs. On the other hand, it is believed by funders that gathering evidence would be more helpful towards attracting more pledges of monetary resources. The support structure is also similar amongst the funders, mixing financial and non-financial support. Non-financial support refers to consultative support, making referrals and leveraging resources. Case B has started to move into the VP area on this front.

In addition to the similar shifts that can be seen in various funders (all four cases), ongoing changes are also identified. The following subsection therefore, discusses and explores the reasons why convergent and divergent patterns are evident.

#### 1) Role of the change in funding structure

Based upon the four case studies, a shift in funding structure is detected, from short-term project to longer-term support. It has been discovered in the research that funding structure can play a role in change, for example, by shaping a new relationship between funder and recipients. The support has shifted from funding for project development to organisational competence or capacity. The assessment focus has shifted from reviewing effective projects to evaluating organisational business models (either with regard to innovation or to a model for change). In terms of funding structure, all four funders are moving to providing both financial and non-financial support. This has shaped a change in the relationship between funders and recipients.

It is important to note that funders' missions are delivered through a third party – a funding recipient. When the question was asked regarding the forces of change, the responses indicated that individual entrepreneurs drive the changes. With the exception of Case B, the other three cases are new initiatives, established by individual entrepreneurs. However, in Case B, after



the original founder (the designated Chairperson of the funding organisation) died, the new Chairperson took the opportunity to advance change. This was not driven by need, because Case B's financial capacity was sufficient. It receives financial income from its investments and business, as the original founders' family business was endowed completely to Case B. Evidently, the change was primarily driven by the Chairperson, who has a strong drive for change similar to that of the founders of the VP cases. Broadly, this seems to resonate with the argument by Nicholls (2010a). He refers to funders, as resource-rich actors, playing a role in "reflective isomorphism" through practice. Reflective isomorphism denotes that organisations intend to gain legitimacy, and thereby become isomorphic. In the four cases, legitimacy is seen in setting new rules, seeking change or innovative models as a means of effective social funding and developing a scientific method of measuring giving behaviour. In operations, legitimacy is reflected internally and externally. Internally, it is shown in the governance board (training, debates and learning) and internal information system. Externally, it is shown in the events, exchanges and knowledge sharing amongst the funding recipients. This is specifically seen in Case A's syndicate group, which brings together funding recipients who have received the resources and support under the same themes on a regular basis. The events have facilitated knowledge exchange for reflection. Thus, this research has identified the funder's conduit role in reflective isomorphism, arguably driven and led by individual entrepreneurs.

## 2) Role of engagement-process change

The findings suggest that all four cases are similar to the five definitional characteristics of VP (high engagement, tailored financing, multi-year support, non-financial support, and performance measures) identified by the EVPA (2012). Synthesising the attributes of the four cases, the research develops a typology based on the funding-giving mode. It depicts characteristics based on the following themes: governance, funding modes, funding priority focus, services, resource marshalling, risk-taking and collaboration. Through the engagement process, different types of collaboration are identified, including the participative mode and the consumer-engagement mode. The collaboration dimension highlights the importance of studying entrepreneurial processes and the corresponding changes in funders. The typology presents motivational, strategic, governance and operational shifts in the four cases. The typology captures the techniques adopted and changes occurring in all four cases. This provides a starting-point to understand the emerging insights of social funders' development in Scotland. In particular, all four cases demonstrate that individual agents play significant roles in initiating changes, gathering information for making decisions, mobilising resources for change and

facilitating ongoing action-based learning (and reflection) to form an active knowledge exchange system with key stakeholders, including service-users.

### 3) Changes in response to internal and external pressures

Since the inception of isomorphic change discussed by DiMaggio and Powell (1983, 1991), there has been enormous interest in researching organisations that are subject to external resource pressures and their operating environments; these pressures have been classified as coercive, mimetic and normative. Most previous research has focused on the static model of organisational innovation and the processes of change in organisational structure (Nicholls 2010a), whereby interaction is increasingly acknowledged between organisations and larger institutional structures (Hybels 1995; Nicholls 2010a), while cultural influences have been highlighted by a significant number of scholars (Meyer and Rowan 1977; Carter and Deephouse 1999; Deephouse and Suchman 2008; Greenwood et al. 2008).

Research has paid close attention to the agent role in configuring the legitimisation and relationships between various actors (Baum and Powell 1995). Suchman (1995) argues that within the change process, subjective manipulation by actors plays a greater role in legitimacy than objective environmental pressures. Building on this argument, this research provides insights into change factors through the lens of studying funders at a micro-level.

Market-oriented business approaches appear contradictory to the original motivational value of altruism in philanthropy, which has added further complexity to this research, as it involves a reconciliation of literature from two opposing domains: the social arena and the market arena. This research attempts to provide a systematic set of data to study the insights and knowledge about funders in this emerging field. This study appears to be the first to undertake a comparative study on four types of funders within a national context through in-depth investigation. Arguably, this research contributes to the reconciliation of the literature regarding the polarised debate among the social and business domains by demonstrating convergent features of the four funders. This is accomplished by uncovering the micro-factors inherent in the engagement process, which, as proposed by Colyvas and Powell (2006), offer insight into the changes and developments occurring at the macro-level (Greenwood et al. 2008) for organisations such as funders, for example, characteristics displayed in the trajectory of change of motivation, strategy, governance and operations. The identification of these core parameters may contribute to the study of philanthropy from the perspective of funders. In particular, as demonstrated, these provide a better understanding of the social funding process

where the funder as a change agent interacts with different actors (stakeholders) in initiating, leading and managing the change process.

#### 10.2.2 The entrepreneurial philanthropist and the pursuit of professional standards

It is interesting to note that the five new market produce (service) combination approaches, defined by Dees (1998b, 2007), are exhibited in the cases studied. These are Schumpeter's perspectives summarised by Dees (2001b: 3) as "introducing a new good or quality of a good"; "utilizing a new method of production or distribution", "taking existing products into new markets", "drawing on a new source of supply" and "creating a new form of organisation or industry structure".

More recently, there has been a call to include entrepreneurial dimensions while studying funders and business practice adaptation; for example, this has emerged from the research by Slyke and Newman (2006). Their research studies the role of entrepreneurs-turned-philanthropists in leading the change and leveraging resources through their influence. Building upon their argument, this present research provides a fresh perspective (in a different context) extending their argument with documentation of four different types of funding approach. The integration was driven by the individual entrepreneurs responding to internal and external pressures in developing capacities and leveraging resources.

As argued by Powell and Colyvas (2008), organisational pressure works to shape entrepreneurs' desires, interests, actions and behaviour. Impetus for changes by individual entrepreneurs is demonstrated in the four cases studied. Therefore, this research argues, that demonstrated by the research findings, pressures will exist regardless, and it is more important to understand whether or how the individuals respond to the pressures. As Trustee B1 in Case B said: "We are affluent with finance, there is no urgency to generate more money". The urgency appears to be how to make bigger impact by using the money. Harrow and Palmer (2003:98) argue, "the development and direction of accounting regulation for charities will focus on boards' attention on risk aversion rather than risk taking". This research suggests that the Boards of Trustees do take calculated risks.

Adding to Slyke and Newman's (2006) argument that individual entrepreneurs-turned-philanthropists have played a positive role in leveraging resources for solving social problems, this research finds that entrepreneurs-turned-philanthropists (professionals) play a processing role as change-makers, not only responding to the internal and external pressures but also

proactively seeking viable funding service models through information, knowledge and activities. Therefore, ongoing changes can be seen, driven by both internal and external actors. One can also see changes, both planned and unplanned, dealing with uncertainties in order to achieve joint problem-solving. The individual actors are, thus, considered as initiators of change and active learners in the change process both with service-users and stakeholders. Arguably, this might suggest that funders potentially have the capacity to make changes. As argued by Anheier and Leat (2006: 586), funders as resource-rich actors are not only independent and autonomous, but also in an advantageous position in leveraging “cultural, social and symbolic” resources “at their disposal”. However, the four cases demonstrate the desire to keep a relatively neutral role in philanthropy, and attempts are made to keep donors away from governance (Case A; Case B – the donor died; Case D).

The pursuit of professional standards has driven professionals from the private, public and third sectors to work together. The four cases demonstrate increased professional standards by measuring performance, by the thinking provided through mixed professional inputs, and in resources. The problem-solving for the four studies is clearly in response to market-state failure due to a lack of resources (Teasdale 2012) and crossing the boundaries between business and the third sector (Dees and Anderson 2006). This present research provides evidence that the Government takes an active role in promoting entrepreneurial philanthropy (seen in Cases A and D). Alignment with the Government is desired by the four cases, which might increase the likelihood for resource leveraging with high net-worth donors or other sources of funds.

### 10.2.3 Reflective ongoing change process

According to Nicholls (2010a: 611–627), funders act as channelling bodies in configuring the why, what and how to give are regarded as “work (s) in progress”. It means it is important for funders being aware that funding model is designed for organisations providing social services, which is complex and dynamic not static. The external environment that funders are operating in does change too. In this progressive process, individual actors play an endogenous role in the configuration of resource acquisition, re-distribution and evaluation. As argued by Edwards (2009), VP results from a struggle between effective giving and attempts for change but not from a lack of resources. Reflective isomorphism is evident in the four cases, highlighting the use of optimised approaches to maximise the return on investment. The giving of money, time and knowledge is regarded not merely as pure altruistic giving but investment behaviour. Individuals lead the reflection, which is termed the “hero-entrepreneurs” effect by Nicholls

(2010a: 624), in particular in the process seeking for funding legitimacy. Therefore, this research has added insights to this reflective component by demonstrating the collective entrepreneurial efforts within the change process.

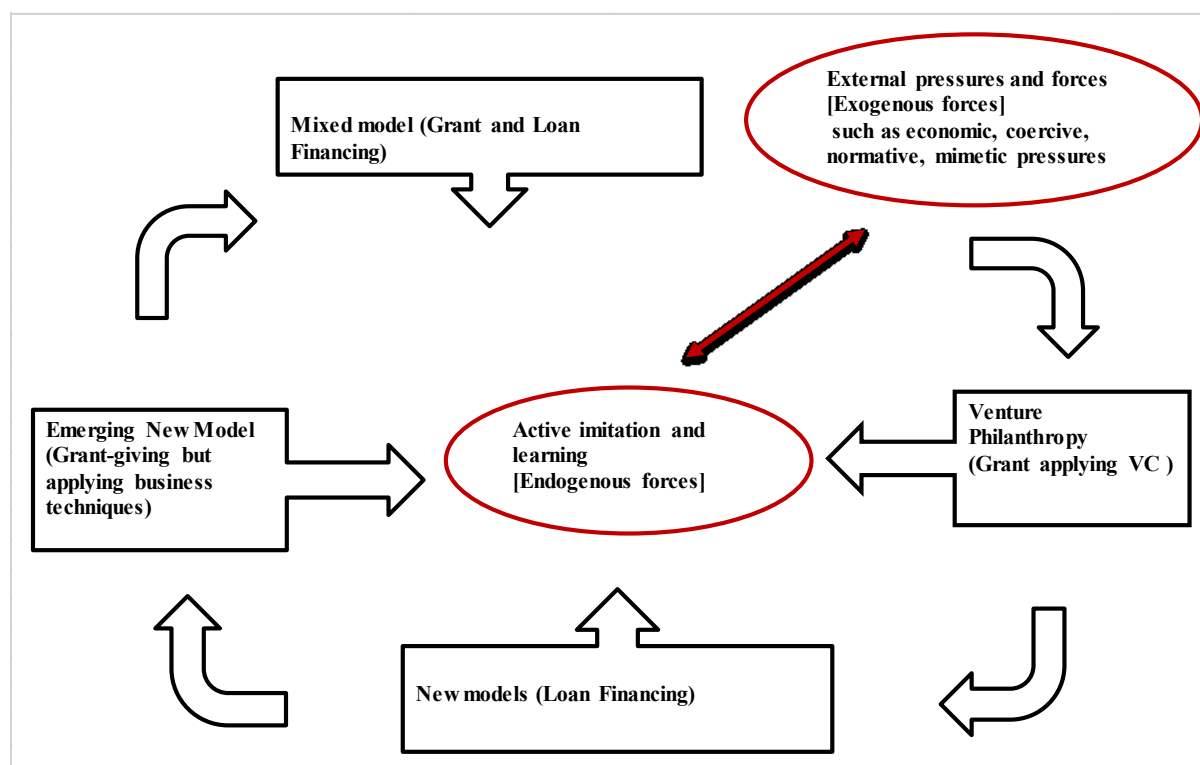
Business principles were applied in the four cases. Ongoing (incremental) changes were discovered in the adaptation process, indicating the need to contextualise business principles into targeted service areas. The adaptation is, thus, not simple or purely imitative. The constant and ongoing efforts and activities indicate the need for understanding of the contextual factors in the adaptation process. One needs to be aware of the need for change because the market is changing all the time, the service demand is changing, and this, therefore, determines the changes in the funder's giving behaviour and strategy as well as the resource supply. In this change process, individual entrepreneurs are at the centre of the engagement process (illustrated in Chapter Six), identifying/interpreting the changes needed, developing the models for change, and leveraging resources and strategic allies for change. Learning has become an iterative process for the implementation of change. Meanwhile, the process has provided a central space for negotiation, creating shared solutions with different actors, and ensuring the avoidance of "mission drift" or "mission rigidity" (Dees et al. 2002: 34).

The process of mission delivery for a funder requires consistency and practicality (Dees et al. 2004). For these reasons, resource convergence was identified amongst the four cases, driven by outcome measurements. Driven by frustration, professionals who have worked in philanthropy have witnessed intractable social problems and seen resources being distributed to the community without any clear change or impact. Therefore, the evidence reflects endogenous motives for change.

Building on key influential research, this study seeks to increase scholars' understanding of the entrepreneurship–philanthropy interface, further advancing the importance of the resource acquisition and distribution processes, which are often treated as twins rather than as single or separate functions. This research is one of the first comparative case studies based on empirical research conducted in a single country, investigating the funding engagement process.

Evidence from this comparative study shows that the system for change is set up to facilitate learning (internalisation, externalisation, socialisation and combination). In particular, individual actors across all levels are fundamental to this process, whereby their educational and professional background, knowledge of the sector, perceptions, interpretations, solicitations and evaluations prove widely influential in terms of resource mobilisation.

Resulting from reflective thinking, a regional development model is desired by the four funders. It is expected to bring different funders together. Potentially, this could serve as a social funding hub which receives the funding assessment document once, with the information then being tailored for different funding organisations. The regional convergence might be based on shared missions, shared strategy and shared working approaches.



**Diagram 10.1 Convergent Model Based on Four Cases**

Source: Developed by author

The country-level collaboration is desired by the four funders. The development requires a central infrastructure for new leadership and coordination. Accordingly, new governance and different actors creating a shared mission need to be considered carefully. Citing evidence from the findings, cross-case collaboration (Cases C and D) was identified. Both Cases A and D are associated with the Scottish Government. In accounting for variations in the four cases in Scotland, individual entrepreneurs combine collective resources and efforts for delivering changes. The entrepreneurship feature is considered cohesive and conducive to organisational adaptation, imitation and change through the process of marshalling resources. Because the change should be implemented through human actors who absorb, analyse and subsequently use information to turn it into knowledge by observing and learning from each other, the four

cases were able to work collectively towards a convergent path at a sector level, as is illustrated in Diagram 10.1.

### **10.3 Empirical contribution**

The present research proves novel in two major empirical areas. First, it identifies the change trajectory from strategy to practice. The components of the conceptual model provide insights for funders' decision-making. Secondly, it illustrates the uniqueness of the four funders. Different funding modes provide rich perspectives of different engagement approaches.

This is one of the few studies to explore variations in different funders' approaches for social good with regard to the strategies and practices implemented. Regarding the practical relevance, findings of this study have significant implications for the growing contemporary interest in testing different funding modes, and in designing models for effective ways of giving and maximising return on investment. As such, this study provides insights for practitioners, entrepreneurs, philanthropists, investors, policy-makers and other stakeholders, especially those within the social funding circle. In addition, this study documents an explicit comparative picture of the four models utilised in Scotland, and, arguably, knowledge of their collaboration might be significant at a country-wide level.

The empirical contributions also offer detailed parameters of the four types of funders in Scotland. All of them adopted and adapted business techniques in their giving behaviour. The mapped-out typology of the four models provides a framework for understanding different types of innovative funding models and "how-to" strategies. This detailed knowledge provides direction for those funders who wish to design change models and implement changes, no matter whether radical or incremental. The focus on innovation can be in services, systems, or a financing model; it can also be for micro-, sectoral or macro-level change.

On the other hand, the role of funders is perceived differently by former Rockefeller Fund President, Peer Goldmark, who ascertains that three necessary components are missing from American funders: "performance measures" system in the market; public monitoring through "ballot box", and accountability (also seen in Arnove and Pinede 2007: 422). This indicates that there is a perceived need to make funders more accountable than ever before and therefore, that structural changes in approach may be required to deal with social problems.

The four funders use a pragmatic philosophy, which involves an ongoing process of learning from practice. Arnove and Pinede (2007) criticise the "Big Three" social funders (i.e. Carnegie,

Rockefeller and Ford), arguing that they contribute to the creation and maintenance of a dominant power in the social system through ameliorative practices, which harms equality and justice. Although heterogeneous resources are drawn on for hegemonic approaches in solving problems, the approaches adopted by the four funders are rooted in the community with increased levels of mixed professional input. Differently from the “Big Three”, the prime Scottish donors are not involved in daily operations or governance. The pragmatism is also exhibited in the ongoing engagement process. The four studies apply their social funding vision and motivation to change perspectives. A spirit of learning and desire for collaboration is evidently high.

#### **10.4 Policy implications**

In both Cases A and D, the Scottish Government acts as a financial resource provider, which inevitably influences, for example, how resources and strategic alignments are leveraged and implemented. However, in both cases, the Scottish Government has not interfered with the decision-making processes. In fact, such balanced involvement by the Government has fostered a nurturing form of entrepreneurship and facilitated the funders’ capacity for change. Nonetheless, controversy arises when a government becomes involved with philanthropists or social funding organisations, which if not dealt with discreetly and with dignity, can be harmful, in as much as these government-supported funders are susceptible to views which consider them puppets of, or mere substitutes for, the state service rather than independent organisations. The risk of shaping a homogeneous power, seen in the American cases, must be avoided. That being said, however, the government’s involvement can be beneficial when a funder is both transparent and accountable to the public.

On the other hand, the OSCR annual report system seems unhelpful in distinguishing funders (as resource organisations) from those charities who deliver services directly to the community individuals, while the funders’ remit is to provide monetary resources to organisations. This hinders the gathering and presentation of the statistics on a macro-scale to allow better understanding of funders. There is a need to consider a separate monitoring system to review social funders, because more data and understanding will support the Scottish Government’s decision-making in shaping new areas of policy. Furthermore, in cases where funders are equipped with supporting policy infrastructures, such as tax relief incentives, the formal monitoring system could potentially attract more resource-rich funders to invest in innovation capacities, thus facilitating greater risk-taking.



## 10.5 Methodological issues

The selection of funders has provided a snapshot of funding organisations in a country context illustrating the practice of four funders currently adopted innovative approaches. This study has employed a multiple case-study approach to explore the change (adaptation) capacities of funders, as was the method recommended by Yin (1994) for studying such a highly complicated phenomenon. The case-study methodology has also allowed for use of more expansive holistic data-collection methods, including observation, documentary analysis, attending events and professional conferences for data-collection, focus groups and interviews. The selection of different cases was instrumental in enhancing the richness of the data on social funding practice. Further, focusing on four cases within the same country strengthened the comparability and highlighted the potential insights for funding model adoption and adaptation.

Such a method has allowed for an in-depth exploration of the funders' rich experiences, passions and commitments, in addition to the technical know-how of people who come together and work hard to solve social problems. As both an insider (a practitioner in philanthropy) and an outsider (the researcher's identity in the academic field), there was a need to manage the relationship with the case studies, ignoring insights from previous knowledge, while following hunches based on prior experience. Therefore, constant justification was adopted throughout the process of data collection. With the acknowledgment that this research is exploratory, a critical review position was adopted through triangulation. Given the complexities and richness of the field, a more clear-cut view of parameters could be achieved, focusing on causal effects on the field to investigate more explanatory factors. Surprisingly, isomorphic changes were discovered in the data, which are considered valid, in as much as these changes are explained within the case studies constructed (Yin 1994).

One key challenge associated with the implemented methodology has to do with the time lapse. Although the four cases were established in a similar period, they still developed at different times. Consequently, this research was not able to account for all of the effects, particularly given the rapid changes in government policy and the operating environment more generally. The four cases have also undergone significant idiosyncratic changes, which has led to some obscurity with regard to "recording" past events. In between negotiating access and organising interview schedules, major events and daily occurrences quickly passed, which inevitably resulted in gaps in terms of capturing the most updated knowledge and ensuring the full validity of the research findings. However, as this research did not investigate outcomes, but rather

focused on processes, this was not such a major issue. Further, this longitudinal study was supported through the use of multiple sources.

Given the different size of each organisation, the participants were not necessarily on equal platforms. To accommodate for this, triangulation is used both in the sample data collection process and data interpretation. An additional issue for this research was that the cases studied were all at different stages of development. In particular, Case C was a relatively new initiative using an emerging approach. Thus, the academic knowledge about this type of funder was quite limited regarding its specificities and features. On the other hand, the history associated with established organisations threatens to constrain certain funders in adopting radical approaches. Although the data are from convenience sampling, this simply reflects the reality with regard to those funders who are open to being studied, given the criticisms of funders for being secretive.

One of the strengths offered by the case-study approach is its ability to facilitate an in-depth investigation. However, this is not without its drawbacks. Exploratory research that seeks to unravel the complexity of an operating environment is very time-consuming, in terms of both the data collection and the analytical processes. The initial pilot study identified the possibility that some respondents might slightly disguise negative experiences while emphasising positive and new experiences. To limit this effect, the researcher always asked respondents to provide an example as evidence of their claims. Considering that all the cases are in the process of developing a better monitoring system, it could strengthen the case study if the research could obtain a whole set of quantitative data from all the cases, this will be considered for future research.

In terms of generalisability, it is necessary to understand the limitations of research findings to ascertain their applicability to other funders. Given the many contextual factors inherent in any operating system, there are many limitations with regard to the application of these findings across all practices. Certainly, culture and business practices, as well as the regional and political environment, all play a crucial role that impacts on the generalisability of this study's findings. The tax system and religious differences may also play a role in the distribution of funds. Therefore, the researcher contends that the findings can only be generalised to other funders in countries that are similar to the one studied. Arguably, this limitation provides fruitful areas for future research, which are discussed in Section 10.6.

## 10.6 Suggestions for future research and final reflections

Completing this study has led to additional questions in relation to the funders' change processes, thus opening up multiple avenues for future research. Some suggestions are as follows:

Given the limitations of the research, investigation could be extended to testing further the conceptual framework developed from this work as shown in Diagram 10.1, potentially, for example, to compare it with practice in other parts of the world. This might provide new avenues in terms of understanding funders' behaviour in a different social-economic-cultural-political context or similar context, to test the determining factors.

- 1) As this research does not investigate all the funding-recipient organisations, it would be insightful to study the relationship between the case organisations and their funding-recipient organisations using a much larger sample. This might provide aspects for understanding whether the isomorphic change is emerging in the funding recipients, what governs the funder–funding-recipient relationship and what constitutes an effective funder-recipient relationship for optimal impact.
- 2) Another possible avenue might be the utilisation of a questionnaire survey. It could be distributed to a wider group of funders to test the parameters identified in this research from one country. This might identify correlational features amongst the different determining factors.
- 3) As demonstrated from this research, actors from multiple-background and different sectors have emerged in a common zone, shaped by funders, for social problem solving. It would also be useful to study the actors' relationship in the completely interactive system from a social network perspective. This should provide new insights in determining the relationship amongst different professional inputs, knowledge, information and skillsets, and how those factors influence and shape governance.
- 4) Longitudinal research should be also considered because this permits investigation of an evolutionary path of change. This will help academics and researchers to understand the role of the funder as an agent for change with a radical approach to solving social problems.
- 5) Four models are not a representative selection; therefore, further research is needed to access more models for a more in-depth comparison, both qualitatively and quantitatively. More cases should be drawn on within and out with the country, to test the findings further and pursue a more rigorous understanding.

- 6) Importantly, research could attempt to develop an integrated model among the four types of funders at a country level by focusing on the following questions: What role should the Government play? Who would be a catalyst for change, to amalgamate the key actors in a centrally-managed system? What mechanisms and structures are required for sectoral-level innovation and change? What are the optimal conditions for an effective collaboration between funders?
- 7) It would also be worthwhile to test the typology developed in this research across different contexts, for example, in different countries and in different economic–cultural–political–social paradigms. For instance, research could test the typology in developing countries and/or compare Eastern and Western conceptual understanding with regard to social funders. In particular, the roots of philanthropy in the West verses the East are based on alternative religions (such as Christianity and Buddhism or Islam respectively). Such a comparison could provide new insights by identifying the specific conditions of the variables proposed in the framework as they relate to each region.

## **10.7 Conclusion**

This research considered four cases representing the notion of VP. Isomorphic change was identified in the research. This was demonstrated via the ongoing adaptation of business practices in the funders' strategies and operations. It was further shown that motivational shifts, which were compounded by the components of altruism, public and private interests, responsible giving and responsible investment, underpinned such changes.

Significantly, ongoing changes have taken place in the four cases, exhibited in changes in personnel, structure and standards while the change strategy was being implemented. The change has resulted from reflective thinking, led by individual entrepreneurs. The empirical evidence shows a trend, which implies that the four cases are converging towards a similar path, with parallel values, motivations and work approaches. This convergence also suggests a trend that might lead to an integrated regional model, where social funders collaborate and establish a sectoral-level change model.

Finally, it is important to acknowledge the policy shifts that might stimulate changes in the third sector, as well as other external pressures, such as financial crises. Funding structure does not only work to distinguish different types of funders, but also provides a framework for change. In the context of this research, the funders act as resource-rich actors, where hero-entrepreneurs take an active role in adapting and reflecting upon the change process. A

reflective process is seen in individual entrepreneurs (hero-entrepreneurs), translating “subjective” views into “objective” views, in order to assimilate new ways to resolve contradictory values.

Therefore, this research argues for funders having an advantageous position on two counts. First, funders have the capacity to merge heterogeneous resources together and create a new approach to concentrate heterogeneous forces for social problem solving. The engagement process of the four studies indicates that funders can be well suited to nurture innovative capacities for solving social problems. Based on this argument, this research generates new knowledge by offering a novel perspective from which to understand social funders’ funding behaviour. It also works to shed light for both practitioners and government policy-makers. In particular, it recommends that governments provide enhanced infrastructure in order to support the development of entrepreneurship and encourage reflective agents of change. On the other hand, driven by the social needs, funders are required to consider their role with discreet consideration and design in funding structure. Meanwhile, it is fundamental to put mechanism in place to guarantee that social value is not overridden by financial values, thus, it should be constantly reflecting its role in enhancing human services in the community. In each process of nurturing social change, individual service users need to be placed at the centre of its funding structure design.

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## University of Edinburgh Business School

# Appendix

### Questionnaire Planning

#### A) Confidentiality and anonymity:

All of the data is gathered for academic research ONLY. The Data Protection Act (1998) covers the use of personal information. Permission to use voice recording is sought with individual interviewees. The researcher will strictly comply with the University of Edinburgh's Code of Conduct.

Researcher: Wendy Wu PhD Researcher in Management

University of Edinburgh Business School -Philanthropy and Innovation and

Centre for Charity Giving and Philanthropy (CGAP)

#### B) Core Questions both to ( funders and applicants)

1. Please describe your role or your remits in your organisation, your connection or involvement with the organisation?
2. What's your background and what has brought you to this organisation?
3. What is your interpretation of venture (new) philanthropy in your view? What is new about VP model in your view from your experience?

4. What are the core elements of VP funding model in your organisation? Why are those elements included? How the model is being developed? Please give me examples or any story you would like to share?
5. What is your experience like in dealing with your daily work? What are the unique characters and what are the challenges in delivery VP model? Please give me examples or any story you would like to share.
6. How do you deal with funding applications? How do you deal with your funding applicants? Can you give me two examples?
7. What is your current business model? How has it been developed and operated? And how do you measure/appraise your organisational performance (venture projects)?
8. What does innovation, venture mean in your projects? How do you define those new terminologies? Can you give some examples of innovations introduced to the organisation?
9. What mechanism or process have you placed to ensure the agreed objectives being delivered by your applicants? What has made you excited and frustrated in this process? Why?
10. (Applicants – Remits and role of the applicant organisation? Service mission? Why do you apply for the fund from this specific organisation? What is your expectation? What support have you gained? What is your experience like when you deal with your funder? What has made your frustrated?
11. Your time, knowledge and sharing is much appreciated by me. Any other information and stories you would like to share with me, which you think it would be useful for the research, please get in touch with me.